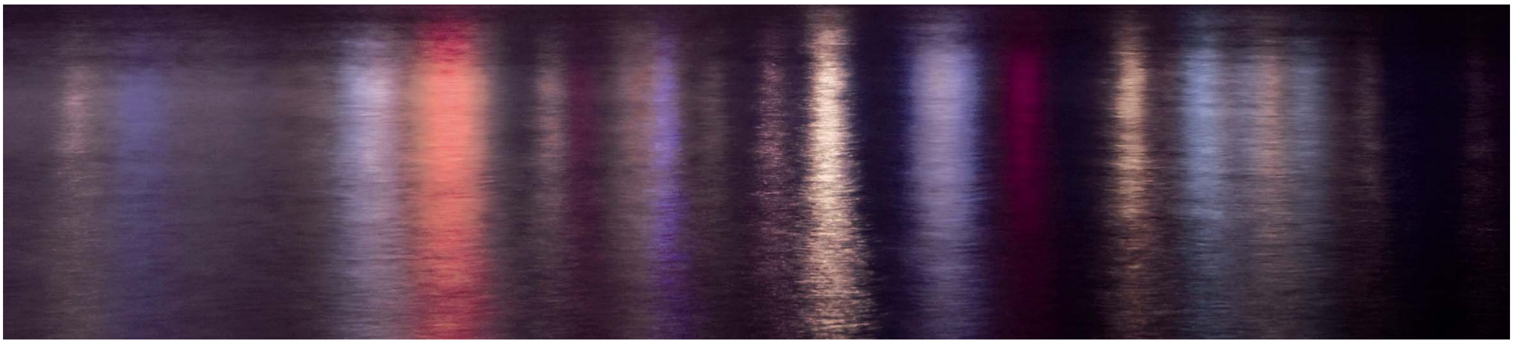
OECD Economic Surveys
IRELAND

SEPTEMBER 2013

OVERVIEW



OECD

Summary

Main Findings

Rebalancing the economy

One of the first euro-area countries to have been hit by a large financial crisis, Ireland is now emerging from its difficulties and gradually regaining access to market financing. Activity is slowly recovering, the unemployment rate has started a gradual decline, cost-competitiveness has improved, and strong exports have helped to eliminate the external deficit. Recapitalisation of the banking system, determined and sustained fiscal policy action and growth-enhancing reforms along with strong political and social buy-in have helped to restore market confidence and reduce sovereign borrowing costs. The debt-to-GDP ratio, which has been rising sharply, is now approaching a turning point and, at somewhat above 120%, the budget strategy rightly aims at putting it on a sustained downward path.

A strategic agenda to reinvigorate growth

Reinvigorating long-term growth will be essential to ease the burden left behind by the crisis. Despite gradual improvement, unemployment remains high, emigration has resumed, and poverty has increased, adding to heavy debts and financial distress. Ireland is endowed with a well-qualified workforce, flexible labour and product markets, a low and stable corporate tax rate and access to the EU single market, all of which attracts significant new foreign investment and will contribute to lifting growth. However, even in areas of relative strength, such as the business environment, there is still room for improvement.

Pathways to jobs

Although the recovery is reducing unemployment, this is likely to be a gradual process, and people having been unemployed for a long time risk being marginalised and discouraged. Skills mismatches are also an issue that needs to be addressed. Those previously working in the construction sector, many of them young, need retraining, if they are to participate in a more knowledge-intensive economy. Welfare support has helped to prevent worse poverty outcomes, and labour market policy is moving in the right direction, but these new policies still do not focus enough on long-term unemployment.

Boosting innovation in Irish firms

Ireland offers a supportive environment for innovation, according to international scoreboards, but this largely reflects the presence of high-tech multinational firms, while "indigenous" (domestic) enterprises are characterized by low productivity**.** Raising SME capacity to innovate and to build greater linkages between enterprises and the higher education sector would provide a new engine of growth. Government support for innovation has grown too complicated for firms to access it easily or for efficient evaluation. Insolvency costs are too high and SME access to non-bank sources of finance remains too low; increasing non-bank finance for SME remains a priority.

Key Recommendations

Rebalancing the economy

- To retain access to financial markets under sustainable and affordable terms, further reduce the public debt-to-GDP ratio. If growth projections are not met and if financial markets conditions are appropriate, the automatic stabilisers should be allowed to operate around the structural consolidation path.
- Fully implement the strategy to reduce non-performing loans taking account of the steps taken to date, so as to sustain on-going balance sheet adjustments, improve bank health and foster the gradual recovery of domestic demand.
- After exit from the current EU-IMF programme, consider international backstop options to provide support in the event of an unexpected shock.

A strategic agenda to reinvigorate growth

- While Ireland is generally business friendly, there is a need to prioritise further structural reforms. To ease doing business, increase competition in legal services and reduce licensing costs and waiting times.
- Continue to emphasise fiscal measures that minimise harm to growth and equity, such as the residential property tax. Review existing tax and welfare structures to address better labour force participation of low-wage workers.
- Address long-term spending pressures in the pension system. Place environmental protection more at the centre of tax, charges and subsidy policy choices.

Pathways to jobs

- To avoid rising structural unemployment and a drift into social exclusion, prioritize the engagement with long-term jobseekers and increase the number of caseworkers supporting them, through internal redeployment.
- To reduce mismatches between supply and demand of skills, better align the content of education and training schemes so that they provide skills required in the expanding sectors.
- Focus limited fiscal resources on policies empirically-proven to improve employability; this will require systematic evaluation of labour-market programmes through consistent tracking and randomized trials, followed by decisions to close down ineffective schemes while strengthening successful ones.

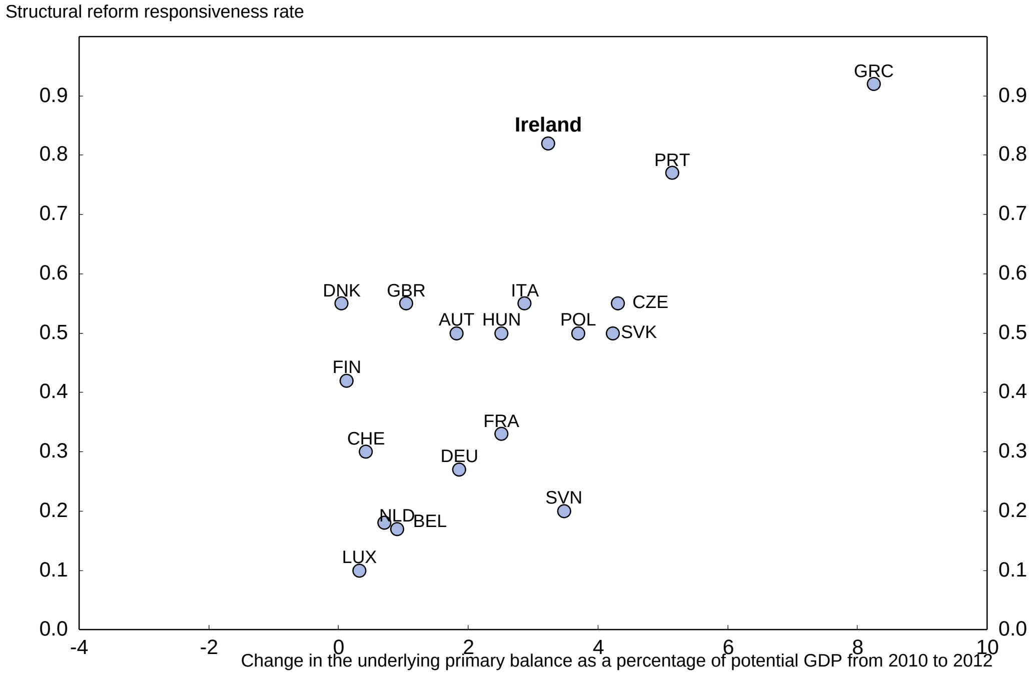
Boosting innovation in Irish firms

- Reflecting significant uncertainties about the effectiveness of various innovation policy tools, independently and regularly evaluate all actions in this area, strengthen programmes with proven higher returns, and wind down the others. To promote effective evaluation, ensure all innovation and enterprise supports have sunset clauses.
- To increase the effectiveness and cost-efficiency of the innovation and research policies, and make it easier for businesses to access support, consolidate innovation funding and actions into a smaller number of Government agencies.
- To increase capital supply and encourage entrepreneurship, lower costs for small-cap IPOs, centralize legal processes for intellectual property rights (IPR) transfers with the new central technology transfer office and introduce changes to the examinership process.

Assessment and recommendations

Ireland is getting back on its feet after a severe banking and fiscal crisis. Determined structural reforms and fiscal consolidation (Figure 1) have helped to rebalance the economy, which is recovering gradually, and underpinned a successful return to the sovereign bond market at declining costs (Figure 2). However, the crisis has left a legacy of unemployment and debts, amongst the highest in the OECD. Now is the time to implement policies that will promote sustainable growth and job creation, including by reforming public institutions and regulations.

Figure 1. **Fiscal consolidation and structural reform efforts**



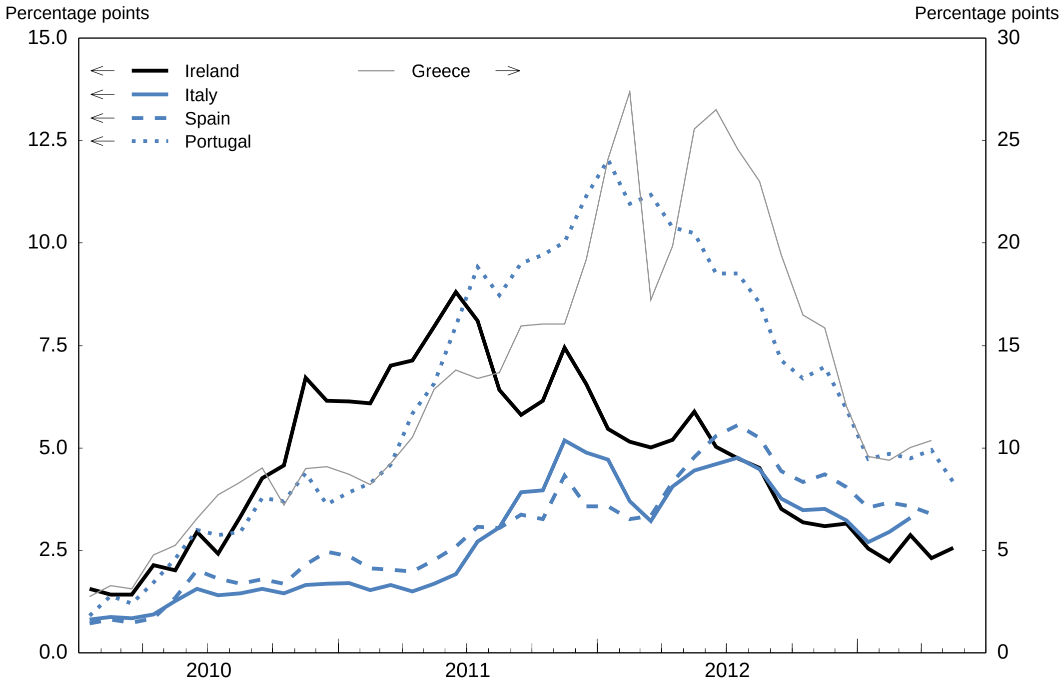
Note: The reform responsiveness rate is an indicator based on assigning a value of one if "significant" action is taken on OECD recommendations given in Going for Growth 2011 and zero if not.

Source: OECD *Economic Outlook 93* database and OECD calculations.

Growth recovery and economic rebalancing

Although output data have been volatile, Ireland has recorded positive growth, led by exports (Table 1). Export-oriented firms, underpinned by a solid base of multinational firms have been the main source of growth, particularly in high-tech industries. Competitiveness, as measured by unit labour costs, has improved markedly (Figure 3, panel A), although this partly reflects sectoral composition effects due to labour shedding in low-skilled sectors, such as construction, and the strong performance of the high value-added chemicals sector (O'Brien, 2011). In a context of declining world trade market shares in most OECD countries, Ireland has shown a resilient export performance

Figure 2. **Sovereign risk premia**[1]



1. 10-year government bonds spread relative to German rate.

Source: OECD Economic Outlook database.

(Figure 3, panel B). Service exports, notably computer and business sector services, are growing robustly, although the patent cliff (the expiry of a number of drug patents) and the slowdown in Europe are having a material effect on overall exports. The economy contracted for three consecutive quarters through to the first quarter of 2013. Short-term indicators suggest a better second quarter of 2013. However, data for 2013Q1 is preliminary. Historically, revisions to first estimates of Irish GDP can be comparatively large. The elimination of the current account deficit illustrates the progress made in rebalancing the economy, even though this is partly due to imports being depressed due to falling domestic demand and the size of the external surplus reported in 2012 is exaggerated by the redomiciling of some foreign companies to Ireland due to policy changes elsewhere (FitzGerald, 2013).

Domestic economic conditions are improving, but at a modest pace. Private consumption has stabilised, following a moderate pick-up in household disposable income, but stronger consumer purchases are hindered by efforts made to reduce indebtedness (Figure 4). After five years of contraction business investment is at a very low level. It has recently started growing again, but acceleration is held back by the high debt of non-financial corporations (Figure 5). The SME sector, which accounts for more than 70% of private employment, is constrained by high property-related debt, and has faced several years of weak profitability. Banks have undertaken significant balance adjustments, but are still making losses.

Ireland has made progress in shifting away from investment in bricks and mortar towards the accumulation of innovative assets. Investment in knowledge-based capital (KBC), a broad measure including computerised information, innovative intellectual property and economic competencies, has grown over time, as in other countries, but remains in the lower half of the 18 OECD countries for which data are available (Figure 6). Building KBC would help Ireland to upgrade its participation in global value chains from its current median position (OECD, 2013). This would in turn allow Irish firms to reap the productivity benefits derived from economies of scale that in a small economy can only be gained through international trade. The SME sector has a large potential, which could be better realised with reforms favouring entrepreneurship, innovation and productivity.

Table 1. **Demand, output and prices**

	2009	2010	2011	2012	2013	2014
	Current prices EUR billion	Percentage changes, volume(2011 prices)				
GDP at market prices	162.3	-1.1	2.2	0.1	0.0	1.9
Private consumption	79.6	0.4	-1.4	-0.3	-1.4	0.8
Government consumption	33.0	-4.9	-2.9	-3.2	-2.1	-2.0
Gross fixed capital formation	26.0	-22.7	-9.6	-0.7	-5.1	5.1
Final domestic demand	138.6	-5.2	-3.0	-1.1	-1.5	0.7
Stockbuilding[1]	23.7	0.7	1.0	-0.4	0.9	0.0
Total domestic demand	136.2	-4.6	-1.8	-1.6	-1.6	0.7
Exports of goods and services	146.4	6.4	5.3	1.6	-1.7	4.9
Imports of goods and services	120.4	3.6	-0.4	0.0	-0.4	4.6
Net exports[1]	0.0	3.1	5.7	1.6	-1.6	1.4
Memorandum items						
GDP deflator	-	-1.5	0.7	0.7	0.4	1.1
Harmonised index of consumer prices	-	-1.6	1.2	1.9	0.9	1.2
Private consumption deflator	-	-2.0	2.1	0.5	1.7	1.1
Unemployment rate	-	13.9	14.6	14.7	13.9	13.7
Household saving ratio, net[2]	-	7.0	5.6	4.3	3.7	3.3
General government financial balance[3,4]	-	-30.5	-13.0	-7.5	-7.5	-4.6
General government underlying primary balances[3]	-	-6.0	-4.4	-2.5	-0.6	1.7
General government net debt[3]	-	46.0	64.2	82.3	89.4	91.4
General government gross debt[3]	-	96.9	109.8	123.1	128.0	125.7
General government debt, Maastricht definition[3]	-	91.2	104.1	117.4	122.4	120.0
Current account balance[3]	-	1.1	1.2	4.4	4.6	5.0

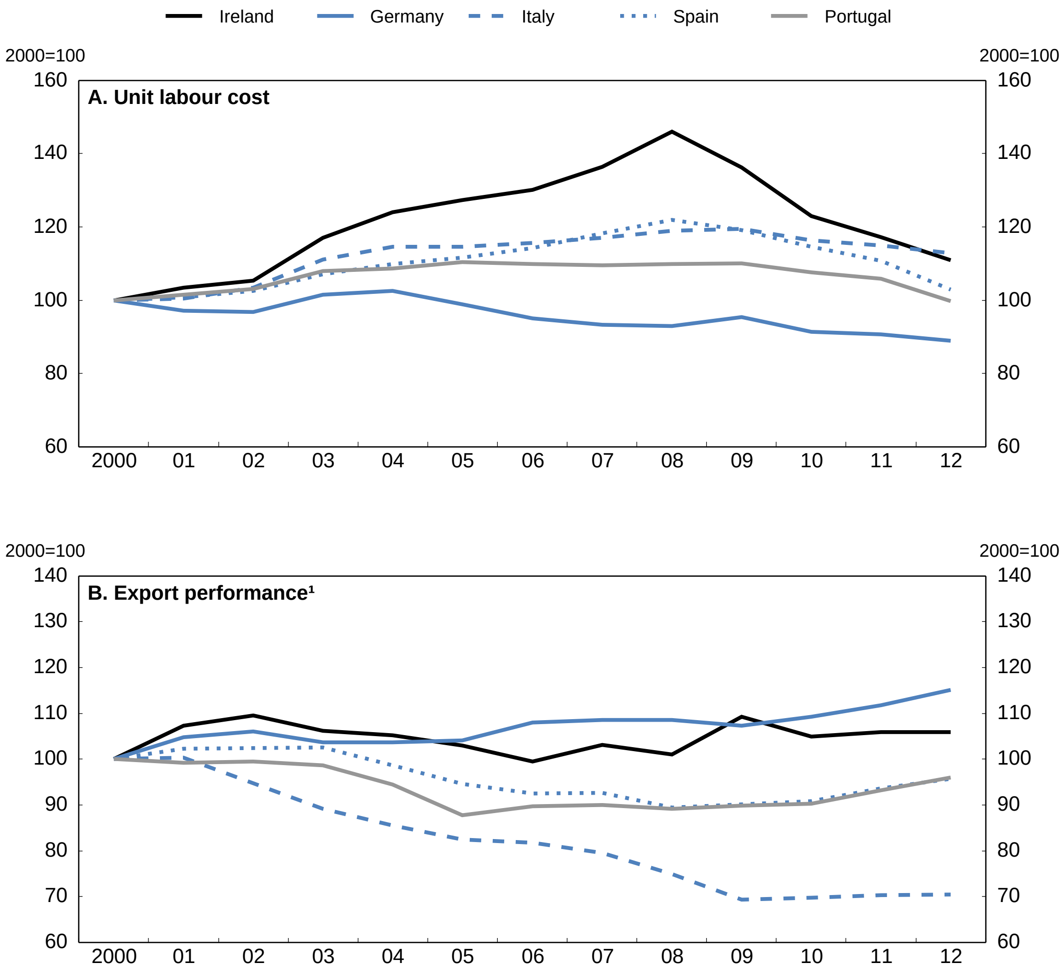
1. Contributions to changes in real GDP, actual amount in the first column.
2. As a percentage of disposable income.
3. As a percentage of GDP.
4. Includes the one-off impact of recapitalisations in the banking sector.

Source: OECD (2013), OECD Economic Outlook: Statistics and Projections (database) updated; CSO (2013), "National Accounts", StatBank, Central Statistics Office.

Strong adherence to fiscal targets has brought debt closer to a declining path

Ireland has undertaken considerable fiscal adjustment, as shown by the expected reduction in the underlying primary balance by 9% from 2009 through to 2014, which has been instrumental in regaining financial-market confidence. In 2013, despite measures equivalent to 2% of GDP, the deficit is projected to remain at around 7.5% of GDP reflecting a combination of special deficit increasing factors (fall in revenues from the Eligible Liabilities Guarantee after its discontinuation, a one-off payment related to the liquidation of the Irish Bank Resolution Corporation, and expiration of a grace period on interest payments on promissory notes). To date Ireland has met or bettered their fiscal targets. On the assumption that the government implements the EUR 3.1 billion consolidation effort for 2014 outlined in the 2013 budget package and that the fiscal space provided by the promissory note restructuring is used for deficit reduction, the general government deficit is projected to decline to 4.6% of GDP in 2014. In case growth projections are not met and if financial markets conditions are appropriate, the automatic stabilisers should be allowed to operate around the structural consolidation path.

Figure 3. **Competitiveness**



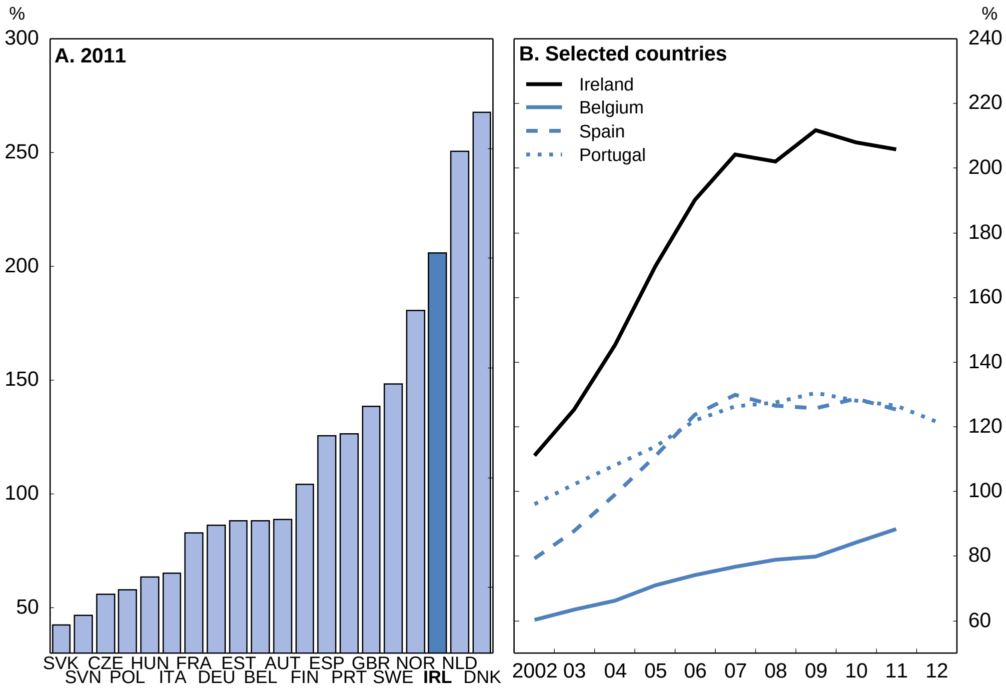
1. Export performance is the ratio between export volumes and export markets growth for total goods and services.

Source: European Central Bank (ECB) and *OECD Economic Outlook database.*

Thanks to ongoing fiscal consolidation and positive growth, the debt-to-GDP ratio (Maastricht definition) is set to peak in 2013. To protect hard-earned credibility and reap the benefits of improved market confidence, it is important to remain on the fiscal path set out in the Government programme (Table 2), while pursuing growth-enhancing reforms. Ireland will soon have done most of the heavy lifting to bring its public debt on a downward trend: by 2014 the structural fiscal balance will have improved 9 percentage points of GDP since the onset of the crisis and a primary surplus is projected for that year. Gradually reducing Government debt from over 120% in 2013 to 60% of GDP by around 2030, in line with the EU fiscal compact, would then only require around an estimated 2.5% of GDP in additional adjustment (Figure 7). The fiscal consolidation effort will continue to exert a drag on the economy, but there are mitigating factors. Fiscal multipliers tend to be lower in open economies (Ilzetzki et al. 2011), for instance a central estimate of Ireland's fiscal multiplier would be 0.5 (Irish Fiscal Advisory Council, 2013), although there is considerable uncertainty surrounding that estimate and it depends on the composition of instruments used (Bergin et al 2010, Benetrix et al., 2009).

In addition to fiscal measures, a return to health of the banking sector would help to preserve market confidence, in particular by removing uncertainties about the possible further injection of public funds. In Ireland, like elsewhere in the euro area, the fiscal adjustment and bank restructuring processes would be facilitated by further monetary policy action (as discussed in OECD, 2013a), which would reduce the fragmentation of markets, improve financial conditions and help to restore access to credit, in particular for SMEs and households.

Figure 4. **Household debt as percentage of disposable income**



Note: Gross debt-to-income ratio of households is defined as loans (ESA95 code: AF4), liabilities divided by gross disposable income (B6G) with the latter being adjusted for the change in the net equity of households in pension funds reserves (D8net). Detailed data and methodology on site *http://ec.europa.eu/eurostat/sectoraccounts*.

Source: Eurostat.

Adopting a strong fiscal framework has been encouraged by EU directives, past Economic Surveys of Ireland, and previous OECD work (Hagemann 2011; Molnar, 2012). Ireland has significantly upgraded the fiscal framework, which now includes fiscal rules for the Government balance and debt, gives legal status to expenditure ceilings, introduces more transparency in the publication of fiscal information and provides the Fiscal Advisory Council with a central and independent role in assessing macroeconomic forecasts and budget plans and compliance with the fiscal rules.

Ireland has also made progress in lightening its public debt servicing burden. Promissory notes have been replaced with 20 to 40-year bonds, and the average weighted maturities of loans received from the European Financial Stability Facility (EFSF) and European Financial Stabilisation Mechanism (EFSM) have been increased by up to seven years. Both initiatives reduce rollover risks, in particular as the EU-IMF programme terminates at the end of 2013 and Ireland returns to market financing. The Government has also rebuilt its financial buffers, seizing the opportunity of more affordable market conditions to issue new sovereign bonds and accumulating the proceeds as financial assets.

Ireland's steadfast commitment to the EU-IMF programme, consistent meeting of fiscal targets and recent maturity extensions on official lending have improved prospects for debt sustainability. The OECD central scenario for the debt-to-GDP ratio is that it will peak in 2013 and decline thereafter. As highlighted by the previous *OECD Economic Survey of Ireland* and the Irish Fiscal Advisory Council (Irish Fiscal Advisory Council, 2012) lower economic growth remains a risk to debt sustainability. Significant risks surround the medium-term growth outlook including: weaker than expected growth in trading partners, especially in the euro area, a deterioration in financial market conditions; and a slow resolution of non-performing loans and revival of bank lending (see below). Should real growth average only 1% per annum during 2014-2021 instead of around 2.4%, the debt ratio could rise to 136% by 2021 instead of falling to 96% (IMF, 2013).

Table 2. **General government finance**

Per cent of GDP unless otherwise noted

	2011	2012	2013	2014	2015	2016
Expenditure	48.2	42.2	42.5	39.6	37.5	36.5
of which:						
Compensation of employees	11.6	11.5	11.2	10.2	9.2	8.9
Social payments	17.4	17.5	16.8	16	15.1	14.6
Interest expenditure	3.3	3.7	4.9	4.9	4.9	4.8
Gross fixed capital formation	2.5	2.0	1.9	1.8	1.7	1.7
Revenue	34.9	34.6	35	35.2	35.3	34.8
of which:						
Taxes on production and imports	11.1	11.0	11.2	11.4	11.5	11.2
Current taxes on income, wealth, etc.	12.1	12.8	13.2	13.8	14.3	14.3
Social contributions	6.4	5.8	5.8	5.8	5.6	5.5
Property income	1.3	1.4	1.7	1.3	1.4	1.3
Headline balance (Net lending/borrowing)[1]	-13.4	-7.6	-7.5	-4.4	-2.2	-1.7
Primary balance	-5.7	-3.8	-2.6	0.5	2.7	3.2
Consolidation measures intended (EUR billions)			3.5	3.1	2	0
EDP intermediate targets for the headline balance		-8.6	-7.5	-5.1	-2.9	na
Exchequer cash borrowing requirement (EUR billions)[2]		15.6	16.3	16.7	14.3	14.7
Public debt (Maastricht criteria)	106.4	117.6	123.0	119.4	116.0	111.0
Real GDP growth (%)	1.4	0.9	1.3	2.4	2.8	2.7

1. Includes the one-off impact of recapitalisations in the banking sector.
2. Including debt rollovers.

Source: Irish Stability Programme April 2013 Update.

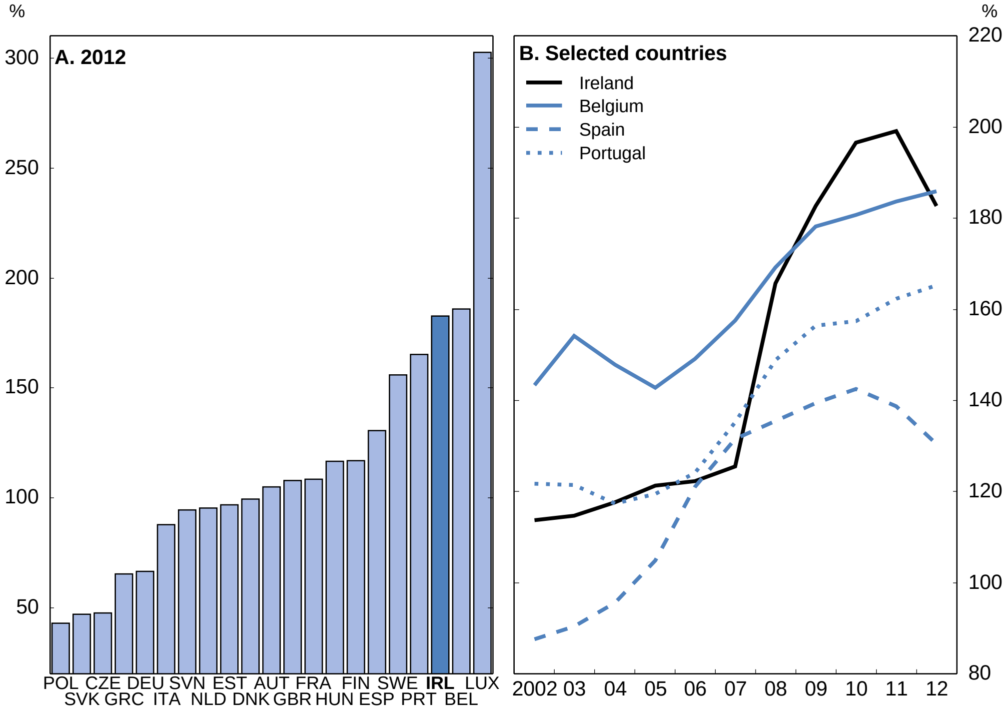
A back-stop might be appropriate, such as a precautionary IMF credit line, an Enhanced Conditions Credit Line by the ESM, or gaining access to the ECB's Outright Monetary Transactions (OMT) programme. This would act as a safeguard against potential adverse movements in financial markets confidence that could endanger the sustainability of a successful return to the market.

Returning the banking sector to health

The banks were recapitalised to well above regulatory minima following the March 2011 Prudential Capital Assessment Review (PCAR). However, bank operational profitability before loss provisions is still weak, reflecting low interest-rate margins, which were around half those in the United Kingdom in 2012 (Holton et al., 2013). The expiration of the Eligible Liabilities Guarantee (ELG) at the end of March 2013 has raised margins somewhat as bank fee payments in exchange for the guarantee reduce as guaranteed liabilities mature. Nevertheless, despite some promising signs, including lower operational costs, lifting profitability will be challenging. Around half of mortgages are low-yielding, with interest rates that are priced at a small spread over the ECB's low main refinancing rate. Banks have raised standard variable mortgage rates, but further increases may just induce an increase in nonperforming loans (NPL), which are already high: Ireland has the second highest NPL ratio in the OECD, although the definition of NPLs is not entirely comparable across countries (Figure 8).

Rising non-performing loans are hindering the return of banks to health. Compared to the stress tests under the PCAR, losses associated with provisioning for bad loans already exceeded by June 2012 the base case scenario for the whole period 2011-2013 (CBI, 2013), although they remain below those in the stressed scenario for which the banks were recapitalised to absorb. As a result of this and asset disposal costs being lower than in the stressed scenario, capital adequacy ratios have declined but they remain above the regulatory minimum in early 2013. The high level of non-performing loans undermines financial-market confidence in the banks and limits their access to funding, which in turns means that credit supply conditions, especially for SMEs, remain amongst the tightest in Europe. That said, financial market confidence in the banks has seen a significant improvement since 2011, as evidenced in the decline in the use of Eurosystem funding by the banks and the issuance of new funding to private counterparties. A new round of stress tests will be completed ahead of but in close proximity to the European-wide bank stress tests scheduled for 2014.

Figure 5. **Non-financial corporations' debt as percentage of GDP**



Source: European Central Bank (ECB).

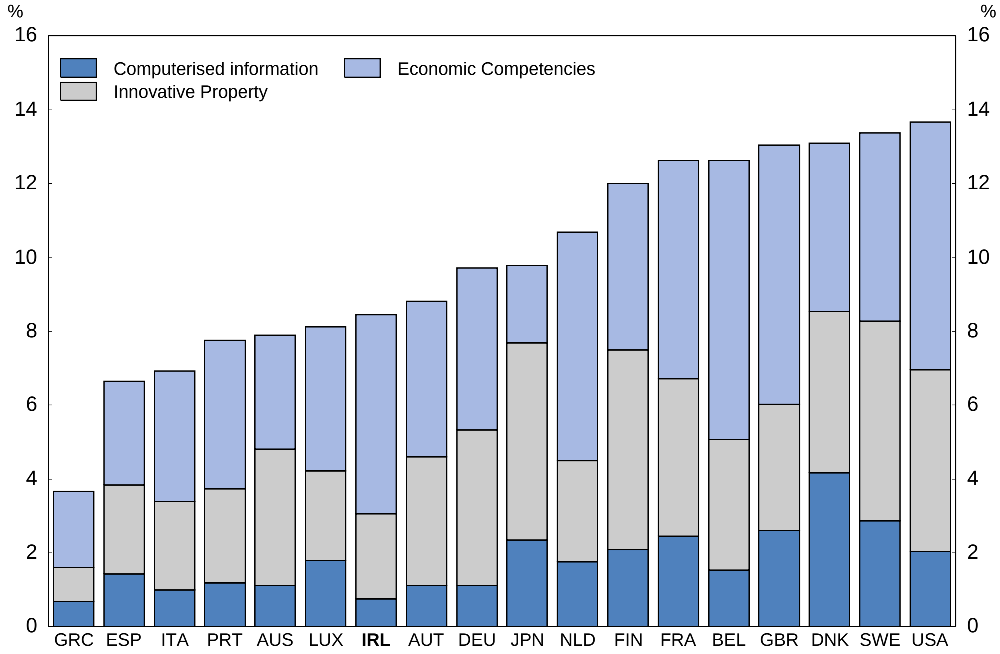
Mortgage loans are a large part of the NPL problem. More than five years into the crisis, the banks' main response has often been limited to principal payment holidays or extended loan terms – a strategy dubbed “extend and pretend”. Repossessions have been very low, even for investment properties, partly because of a legal lacuna which is being addressed. Repossession can provide an efficient means of dealing with investment property loan defaults, but in the case of owner-occupied dwellings should be used only as a last resort.

The legislature passed legislation in late 2012 to overhaul personal bankruptcy and introduce a new personal insolvency regime, which is expected to be operational by mid-2013. In addition, the Central Bank of Ireland announced in March 2013 a new target-based framework for mortgage arrears. This involves quarterly quantitative targets for the number of problem loans to be dealt with on a sustainable basis by the principal mortgage banks. These are welcome steps, which should be followed by strong implementation, including regular progress reports. Fiscal constraints notwithstanding, the Government should stand ready to provide further staff for the new insolvency service should bottlenecks become apparent.

Ireland's SMEs still experience difficulties in relation to the supply and demand of credit. Availability of finance is tight, loan rejection rates are high, the banks are widening their interest-rate margins in their drive to restore operational profitability and credit growth is weak (Figure 9). The Government has set SME lending targets for the banks, which they have met; however two thirds of new SME lending is just rollover of existing loans and the overall stock of lending to SMEs is still declining (CRO, 2012).

Figure 6. **Investment intensity in Knowledge-Based Capital**

As a percentage of market sector value added, 2010



Note: Data refer to the market economy unless otherwise stated, which excludes Real Estate, Public Administration, Health and Education. Figures for the United States correspond to the definition of the Private sector of the National Industry and Production Accounts (NIPA).

Source: OECD calculations based on INTAN-Invest (KBC investment for EU 27 and United States); OECD Main Science and Technology Indicators (EU27 market sector value added); National Accounts from Eurostat (EU 27 tangible investment); United States NIPA from the Bureau of Economic Analysis (United States private sector value added and tangible investment); Australian Innovation System Report (2012) (KBC investment), National Accounts from the Australian Bureau of Statistics (value added and tangible investment) and the Japanese Industrial Productivity database (JIP) (intangible and tangible investment and value added); Corrado et al., (2012).

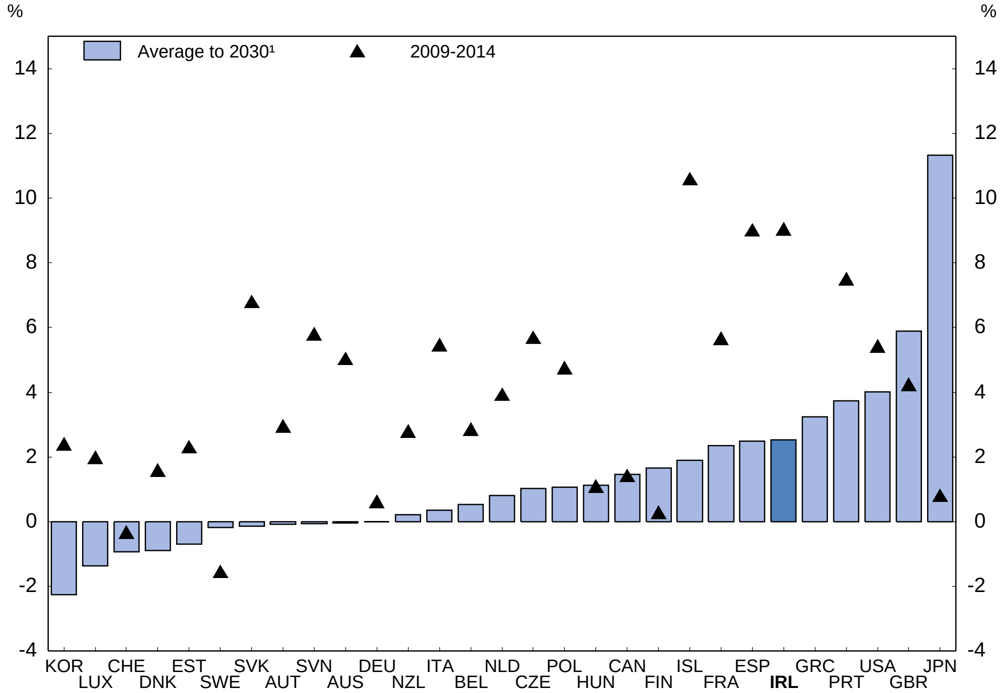
Credit decisions tend to be overly mechanical and the banks are focussed on low to medium-risk lending only (CRO, 2012).The Government lending targets for 2013 are 14% higher than last year and both main banks are expected to meet these targets. The banks' weak operational profitability and the burden of tackling large bad loan problems, increase the importance of developing other sources of finance for SMEs, as discussed below.

Risks to the outlook

There are risks both external and internal to the outlook. Ireland's growth outlook remains largely dependent on developments in its main trading partners, notably the Euro Area and the United Kingdom. Significantly lower growth in these countries would hurt exports and aggravate fiscal difficulties. Both the sovereign and the banks depend crucially on financial stability in Europe, so contagion from adverse financial events elsewhere remains a significant risk.

There are both external and domestic risks to the return of confidence and the revival of investment could take longer than expected which could delay the recovery of strong growth. The return to health of the banking sector could also be more protracted than hoped for. Lack of progress on mortgage and loans arrears may endanger the on-going balance sheet adjustments and thus the gradual recovery of domestic demand. Renewed downward pressure in house prices would also be unfavourable. The high saving rate and the low investment-to-GDP ratio offers scope for better medium-term prospects for domestic demand.

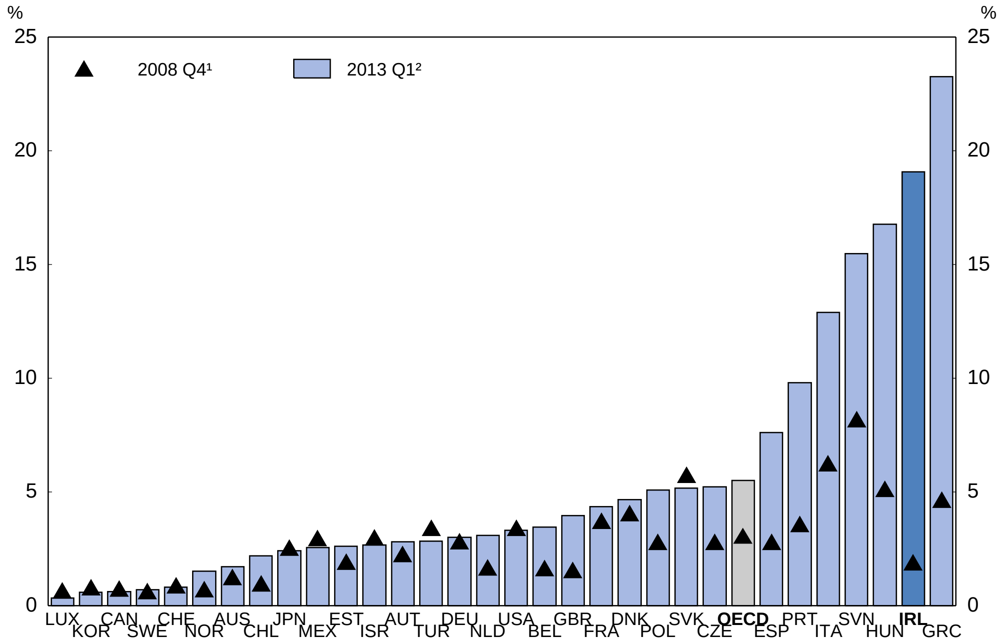
Figure 7. **Fiscal efforts to reduce government debt to 60% of GDP by 2030**



1. The average measure of consolidation is the difference between the primary balance in 2014 and the average primary balance between 2015 and 2030, except for those countries for which the debt target is only achieved after 2030, in which case the average is calculated up until the year that the debt target is achieved.

Source: OECD *Economic Outlook 93* long-term database.

Figure 8. **Ratio of non-performing loans to total gross loans**

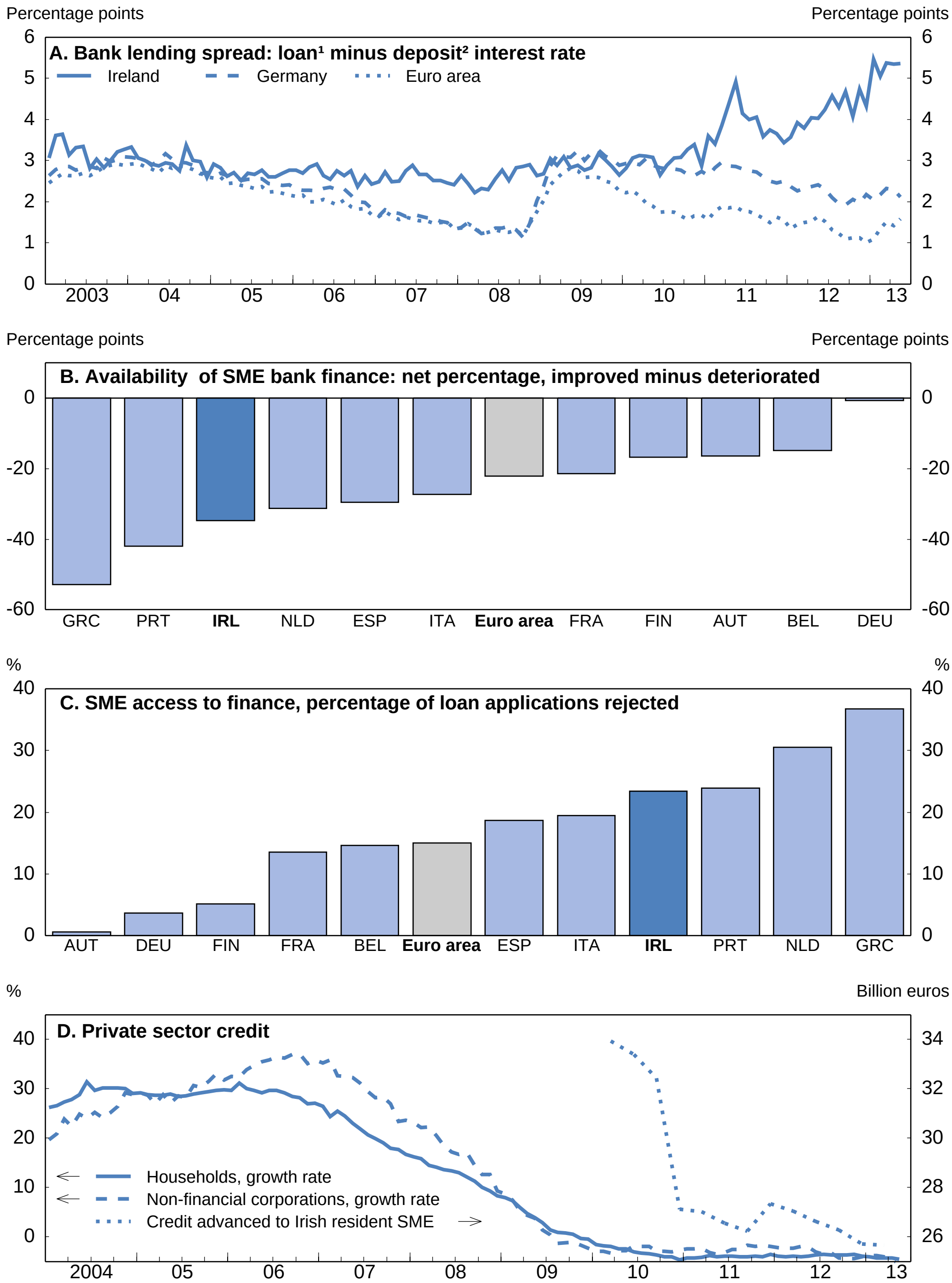


Note: OECD area is the simple average of OECD countries for which data are available. The definition for impaired loan classification is not entirely standardised across countries. Many, including Ireland, are loans overdue for more than 90 days.

1. Or nearest quarter available. Year 2008 for Germany, Ireland and Switzerland; December 2008 for Chile and Mexico.
2. Or latest quarter available. 2011 for Germany and Switzerland; January and March 2013 respectively for Chile and Mexico.

Source: IMF, Financial Soundness Indicators database.

Figure 9. **Financial conditions**



Note: The panel B refers to the question: 'for each of the following ways of financing, would you say that their availability has improved, remained unchanged or deteriorated for your firm over the past 6 months?' and the panel C to: "if you applied and tried to negotiate for this type of financing over the past 6 months, did you receive all the financing you requested, or only part of the financing you requested, or only at unacceptable costs or terms and conditions so you did not take it, or you have not received anything at all?".

1. Loans other than revolving loans and overdrafts, convenience and extended credit card debt: original maturity: over 1 year; amount category: up to and including EUR 1 million.
2. Deposits with agreed maturity; Original maturity with counterpart sector of households and non-profit institutions serving households.

Source: European Central Bank (ECB), SAFE - Survey on the Access to Finance of small and medium-sized Enterprises – April 2012 to September 2012.

On the domestic side, there are also significant long-term risks for the fiscal position including failure to properly manage health and pension spending pressures associated with aging, and contingent liabilities linked with the banks and the National Asset Management Agency (NAMA). NAMA holds a portfolio of property-related loans worth approximately EUR 38 billion (including 12.9 billion issued in exchange for the Irish Bank Resolution Corporation Facility Deed), or 23% of GDP. Its failure to redeem the assets at or above their book value could trigger the Government guarantee of the Senior Notes that were used to acquire the loans.

The labour market situation entails significant risks for long-term growth potential and debt sustainability. The emigration of young workers, skill mismatches and rising inactivity all threaten growth in the years ahead. In particular, persistent long-term unemployment may translate into structural unemployment and contribute to a lost generation of young talent.

Box 1. **Key recommendations on rebalancing the economy**

- To retain access to financial markets under sustainable and affordable terms, further reduce the public debt-to-GDP ratio. If growth projections are not met and if financial markets conditions are appropriate, the automatic stabilisers should be allowed to operate around the structural consolidation path.
- Fully implement the strategy to reduce non-performing loans taking account of the steps taken to date, so as to sustain on-going balance sheet adjustments, improve bank health and foster the gradual recovery of domestic demand.
- After exit from the current EU-IMF programme, consider international backstop options to provide support in the event of an unexpected shock.

Building a pathway towards robust, sustainable and inclusive growth

Ireland benefits from having introduced growth-friendly structural policies in the recent past, following up on OECD structural policy recommendations (Annex A1), and international comparisons show substantial payoffs in terms of well-being, equity, pollution and ease of doing business (Annex A2, Table 1). There is nonetheless room for further improvement, including in areas where policy settings are relatively strong (Annex A2, Table 2).

Improving the business environment

Although Ireland is ranked as the 15th easiest place to do business (Annex A2, Table 1) and it enjoys a light-handed regulatory approach, there is scope to improve the business environment. Ireland's enterprise sector, as measured by birth and death rates, is not as dynamic as in many other OECD countries and firms that employ fewer than 10 employees account for a lower share of employment than average. In addition to measures deemed to boost SME innovation (discussed below), various steps could make doing business easier.

- *Reforming the legal system.* Enforcing contracts and registering property remain difficult for business (Annex A2, Table 2) due to legal and court fees, time delays and high insolvency proceedings costs. Increasing competition in, and better regulation of, the legal profession would reduce these costs. The OECD's Product Market Regulation (PMR) for the legal profession shows that Ireland ranks around the middle of the OECD in terms of restrictiveness, though it is more restrictive in particular areas, including legal education and the types of cooperation allowed (Annex A2, Table 2). The new Legal Services Regulatory Bill that, *inter alia*, establishes an independent legal services regulator, would substantially improve competition and it should be passed without delay. A conveyancing profession, the introduction of which substantially reduced costs in the United Kingdom (Goggin, 2011), should be introduced in Ireland as well.
- *Reforming licence and permit regulation and local government funding.* The OECD's index of product market regulation (PMR) shows that barriers to entrepreneurship are high, with licence and permit regulations being amongst the most restrictive. This is largely due to high fees and excessive delays for planning permissions, fire safety and disability certificates (Annex A2, Tables 1

and 2). Also, local Government revenue should continue to shift away from planning charges, which distort investment decisions (Gorecki et al., 2011), towards more stable recurrent property taxation.

- *Increasing competition in utilities*. The incumbent Electricity Supply Board's (ESB) connection fees and time delays remain large, and vertical integration in electricity and gas is too high (Annex A2, Table 2). Ownership of the electricity transmission grid should be transferred from ESB to the grid operator, Eirgrid. ESB's generation business should also be separated into competing generating companies and partially privatised.

- *Reducing standard business-to-business credit periods and eliminating contracting out*. Large firms with market power often contract out from standard business-to-business credit periods, dictating long credit periods to SME suppliers, and thereby putting them under cash-flow pressure.

Improving the government's expenditure and revenue mix

To minimise harm to long-term growth and equity, fiscal consolidation should prioritise the reform of pensions, subsidies, tax expenditures, property taxes and environmental taxes (Cournede and Pina, 2013). The Irish fiscal programme focused on such priorities, with increases in the pension age and higher fuel excise taxes. A new residential property tax is also expected to raise revenue by 0.15% of GDP in 2013 and 0.3 % in 2014. This is a welcome way to broaden the tax base because taxes on immovable property appear to have the least harmful impact on economic growth (Johansson et al., 2008) and provide more stable revenues than transaction-based taxes. The payment is based on the assessed value of the taxpayer's home, with two tax rates differentiated according to the value of the property, sharing some similarities with a progressive wealth tax. Using it to finance local government, as envisaged, also provides that level of government with a more stable funding and encourages greater accountability from local authorities.

There is potential to further reform pensions and reduce tax expenditures. As recommended in the recent *OECD Review of the Irish Pension System,* Ireland should consider a structural change of the state pension scheme (moving to either a universal basic pension or a means-tested basic pension) complemented with either mandatory or auto-enrolment with opt-out in private pension schemes. Reducing tax expenditures would both lower distortions to growth and improve equity. Tax breaks for health and child care, education, owner-occupied housing and retirement savings often fall into this category (Rawdanowicz et al., 2013).

Reducing the public service pay bill involves difficult trade-offs in terms of numbers and pay cuts. Pay cuts spread the burden more widely among government workers than job cuts although efficiency considerations should be taken into account. Following large increases in the total paybill cost (through increases in both rates and numbers) in the decade prior to 2008, public-sector wages have been cut a number of times during the crisis. Average reductions in pay of some 14% were applied to all public servants in 2009 and 2010 and public sector occupational pensions were reduced in 2011. Notwithstanding these reductions it has been possible to secure agreement with public sector staff to deliver substantial cost reductions and efficiencies alongside industrial peace and avoid potential negative impacts on equity and growth from disruptions to public services. With the aim of securing a further substantial saving in the public service pay and pensions bill to 2016, further reductions of between 5.5% and 10% of wages were applied to higher paid staff on 1 July 2013, with parallel reductions to higher level occupational pensions. The latest agreement with staff, the Haddington Road Agreement, provides for substantial productivity increases and cost reductions; it came into force in parallel with the pay reductions. Increasing public-sector efficiency, without compromising its quality, has a role to play in ensuring longer term growth, especially in the health care sector, where international benchmarking suggests that Ireland lags behind (OECD, 2010; Redmon, 2012). Systematic hospital benchmarking and concentrating specialised medical services could bring both efficiency and patient safety gains.

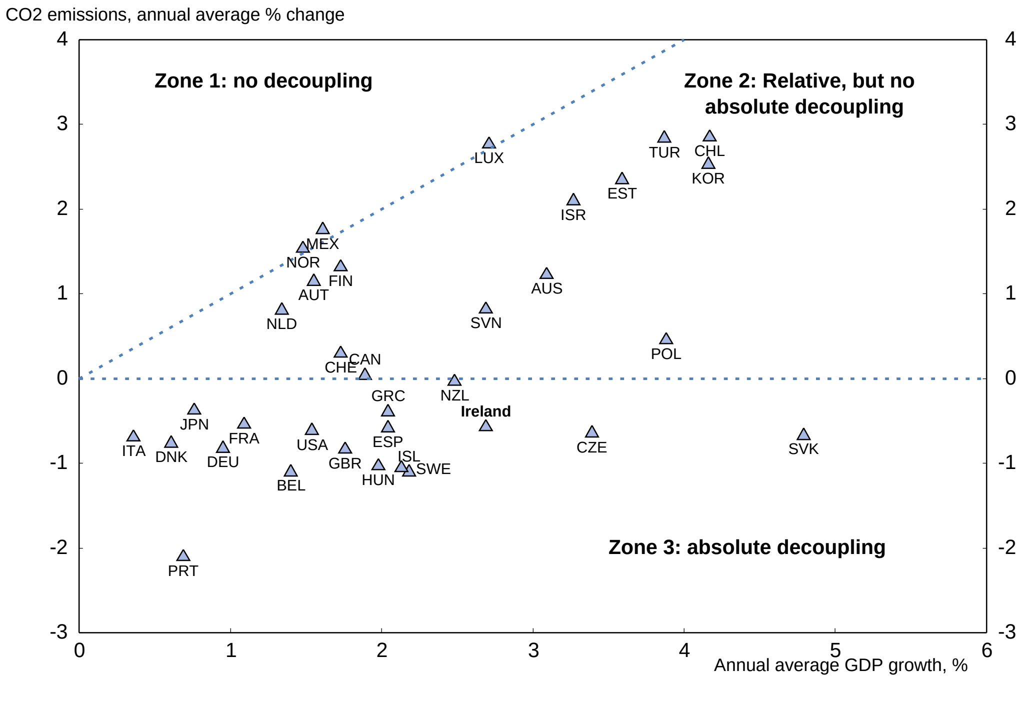
It is important that the tax and welfare systems operate to minimise disincentives to work especially for low-wage workers. This requires a careful and granular review of the interactions between tax and benefits for certain segments of the population to make work pay more vis-à-vis benefit receipt. Minimising disincentives to work is important because the risk of long-term poverty is much higher for jobless individuals on benefits than for employed people. Ireland has the highest proportion of population in jobless households in the EU, and it was the second highest prior to the recession (Watson et al., 2012).

To ensure the medium-term stability and credibility of the tax system, it is essential that the Government remains proactive in the on-going international efforts to coordinate tax standards and avoid base erosion and profit shifting. The Irish authorities have recently completed the ratification of the OECD Convention on Mutual Administrative Assistance in Tax Matters, which provides for mutual assistance between the parties to the convention in relation to the exchange of tax information, recovery of taxes and service of documents. Ireland was also one of the first countries in the world to sign an agreement with the United States to improve international tax compliance and implement the Foreign Account Tax Compliance Act to establish automatic exchange of tax information. Ireland has remained actively involved in the action plan following OECD's Base Erosion and Profit Shifting report. Ireland's effective corporate tax remains close to the statuary 12.5% tax rate and is a central element in its foreign direct investment model. Ireland should continue to update domestic tax rules in line with new international standards as the best way to remain attractive for foreign direct investment vital for economic growth, while preserving its reputation for international cooperation on tax issues.

Make environmental protection and economic development more mutually supportive

Ireland has made some progress in decoupling its environmental footprint from economic growth (Figure 10), although per capita CO_2 emissions are still amongst the highest in the OECD. The share of renewable energy production has grown, albeit from a low base (OECD, 2010a), but 88% of electricity generation was still based on fossil fuels in 2011 (SEAI, 2012), while the EU average is around 40%. Ireland is committed to producing 40% of electricity from renewable resources by 2020 and is making progress towards the target by rapidly increasing wind generation.

Figure 10. **CO2[1] emissions and real GDP changes, 2000-10**



1. CO2 emissions from fuel combustion. Sectoral approach.

Source: IEA database.

Past economic growth was accompanied by a rapid expansion in road transport and urban sprawl. As a result, land covered with buildings and roads has increased by 15% since 2000 (EEA, 2010). Waste generation per capita is amongst the highest in the OECD and there is a high reliance on landfills. Also, agriculture makes more use of nitrogenous fertilizers compared to other European countries, nitrogen levels in rivers and groundwater are on the rise and water losses through leakages in distribution are substantial.

Tax and user fee policies have a role to play in addressing these environmental challenges. Ireland's environmental taxation revenue as a percentage of GDP is around the middle of the OECD, though significantly below the leading country in the OECD, Denmark. The Government has improved the tax, charges and subsidy policy mix to ensure pricing better reflects environmental impacts, and it is introducing water metering and charges for households, but more could be done. In particular, the Government should narrow the gap between the taxes on diesel and petrol, because diesel produces more NOX and particulate matter per litre (OECD, 2010a). In addition, road pricing in Dublin would provide funds for public transport. Better public transport in the metropolitan area would increase equity and improve work prospects. Waste management can (subject to an ex-ante cost-benefit analysis) be better tackled by extending producer responsibility initiatives to take back waste materials to a wider range of end-use products (OECD, 2010a), which would also incentivise innovation. The Government plans to require households to have a waste collection provider to reduce illegal dumping and to link charges with waste produced, which has not been the case in the past (DECLG, 2012).

Strengthen confidence in government institutions by increasing transparency

Ireland is ranked 25th out of 176 countries in terms of the perception of corruption and 50th out of 144 in terms of public trust of politicians (Transparency International, 2012; World Economic Forum, 2013) - far below the leading small economies of the OECD. The Government can increase public trust and ultimately its capacity to implement reform through greater openness, scrutiny and accountability. The Government is implementing a major reform programme to improve openness, transparency and accountability including: the reform and extension to all public bodies of Ombudsman legislation (enacted 2012); a comprehensive legislative framework for parliamentary inquiries (Bill introduced in parliament May 2013); whistle-blowing protection for workers (Bill being drafted); reform and extension to all public bodies of Freedom of Information (Bill being drafted); lobbying regulation; and reform of ethics legislation. As part of this comprehensive package, the Government could consider instituting practices that are compulsory or routine in many other OECD countries: on-line official information requests, automatic publication of administrative datasets and audit documents, and declaration of liabilities (in addition to assets, as now) by senior members of all Government branches.

Box 2. **Recommendations for reinvigorating growth**

Key recommendations

- While Ireland is generally business friendly, there is a need to prioritise further structural reforms. To ease doing business, increase competition in legal services and reduce licence and permit fees and waiting times.
- Continue to emphasise fiscal measures that minimise harm to growth and equity, such as the residential property tax. Review existing tax and welfare structures to address better labour force participation of low-wage workers.
- Address long-term spending pressures in the pension system. Place environmental protection more at the centre of the tax, charges and subsidy policy choices.

Other recommendations

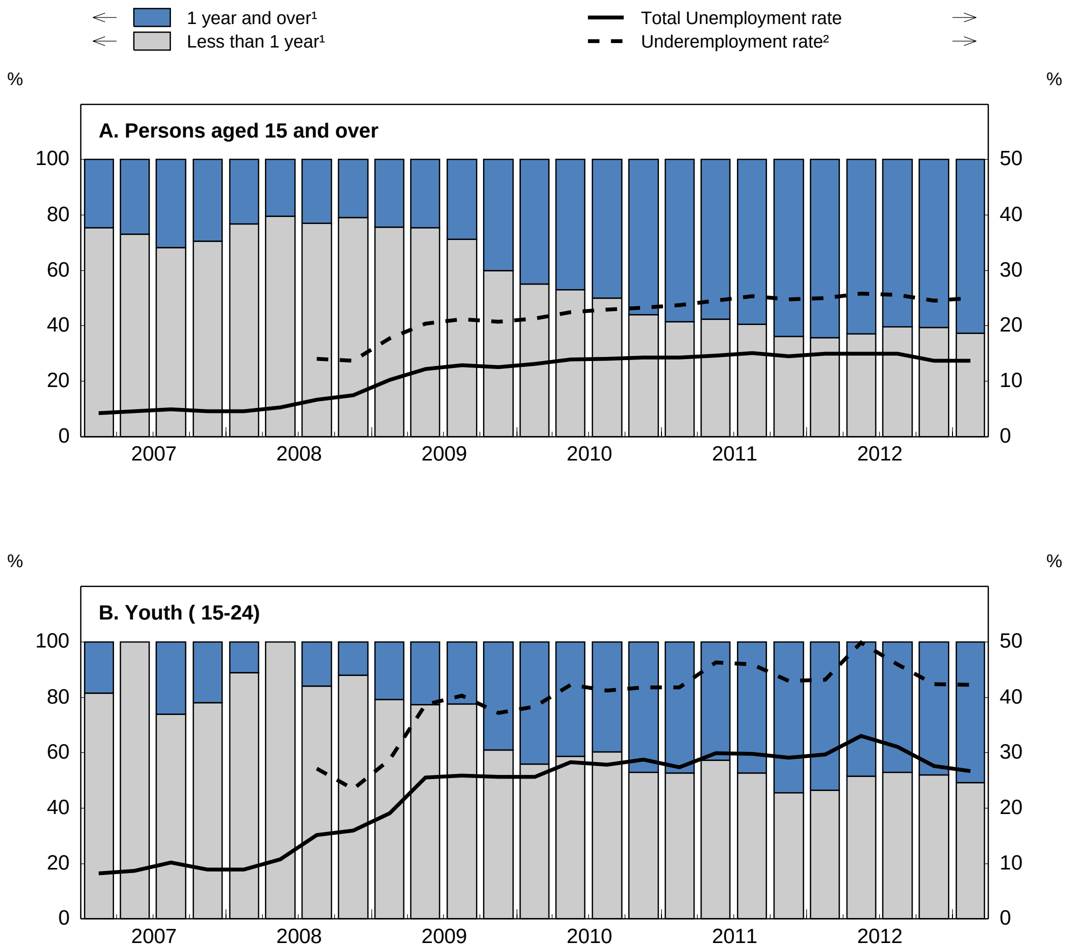
- To improve public trust in Government, increase transparency and accountability of Government institutions.

Labour and social policies

The slow recovery of the Irish economy is leaving behind far too many for far too long. The unemployment rate recently began a moderate decline but nearly 14% of the labour force remains unemployed, with more than 60% having been unemployed for more than twelve months, one of the highest shares in the OECD (Figure 11). Long-term unemployment affects workers in all age groups and education levels. Since the outset of the crisis, the labour force has decreased by 6%, reflecting the largest rise in inactivity among OECD countries and the increasing emigration.

Job losses have been especially large among low-skilled workers (Figure 12). For example, the number of workers employed in construction in 2012 is below that in 2000. By contrast, high-skill jobs can be sometimes difficult to fill, suggesting significant skill gaps, as shown by comparing skill profiles in the population and in employment (Figure 13). Some are attributable to cyclical conditions, but there are important skill shortages in such expanding sectors as information and communications technology (ICT), engineering and internationally traded services.

Figure 11. **Unemployment by duration**



1. Share in total unemployment.

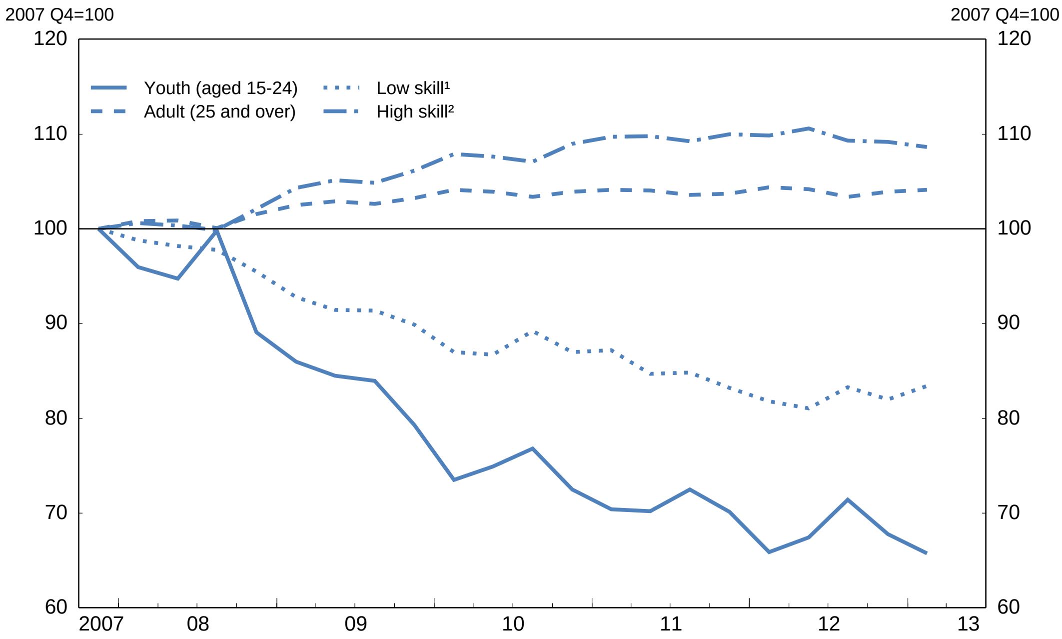
2. Accounting for involuntary part-time workers and workers only marginally attached to the labour force (PLS4 indicator).

Source: Central Statistics Office and Eurostat.

Young people have been affected particularly hard (Figure 12): they have been subject to falling participation, rising outward migration, and high unemployment. Taking into account involuntary part-time work and workers marginally attached to the labour market, the youth unemployment rate is closed to 45% (Figure 11). Ireland has also one of the largest shares of youth who are neither in employment nor in education (NEET) (Figure 14). This is the segment of the youth population that is at greatest risk of becoming permanently disengaged from the labour market. Other EU countries face similar problems, triggering initiatives at EU level to establish a *Youth Guarantee Scheme* and the OECD's *Action Plan to Tackle Youth Joblessness.*

Reflecting high unemployment and rising inactivity, Ireland also ranks unfavourably when looking at other joblessness indicators. The proportion of the population living in a jobless household is higher in Ireland that in any other EU country. Of particular concern is that 20% of children are living in households where no one works (Figure 15). This is the highest proportion in the EU, indicating serious risks of the persistence of social exclusion.

Figure 12. **Employment ratio**



Note: Ratio of employment rate of each group to total employment (15 and over).

1. Low skill refers to pre-primary, primary and lower secondary education (levels 0-2), ISCED 1997 levels.

2. High skill refers to first and second stage of tertiary education (levels 5 and 6), ISCED 1997 levels.

Source: Eurostat.

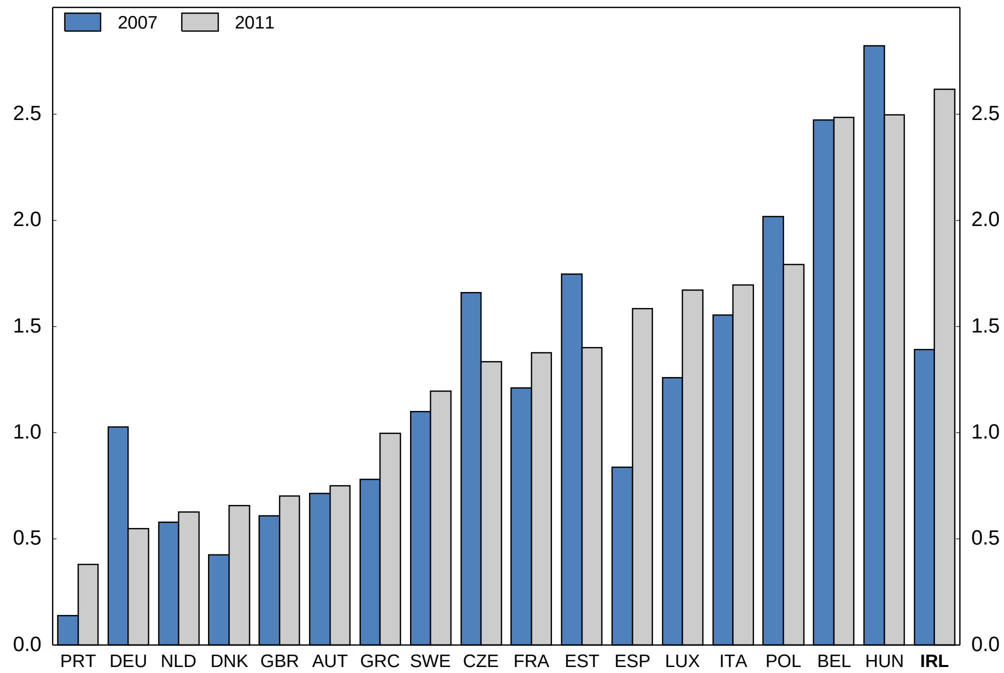
Higher aggregate demand and job creation are essential for bringing down unemployment. But they will not be sufficient. Decisive interventions in labour market policies are also needed to avoid the unemployment rate remaining high for many years to come, risking a rising structural unemployment rate, which would hamper growth and exacerbate inequality and social exclusion. Six years after the crisis began, multiple steps in the right direction are being made, though current plans leave the long-term unemployed without appropriate activation and support. Thus, there is a high risk that these people will be simply left behind as permanent casualties of the recession as new and better qualified job seekers, including immigrants, take advantage of the recovery.

Labour-market policy reforms are underway

Labour-market activation policies were relatively weak in Ireland prior to the crisis and previous *Economic Surveys* have recommended increasing engagement with jobseekers and intensifying job-search monitoring and counselling. In line with these recommendations, several labour-market reforms have been introduced. In February 2012, the Government launched "Pathways to Work", which, in line with reforms in other OECD countries, merges employment services and benefit administration into one-stop-shops, called "Intreo offices" providing a single point of contact for all employment and income supports. The reform introduces the profiling of all new jobseekers to determine their probability of exit from the unemployment register and establish an adequate support plan. Jobseekers face sanctions in case of non-compliance. Full roll-out is expected by end-2014.

For now, however, only new jobseekers are fully covered by Intreo, leaving about 85% of the registered unemployed without access to Intreo support, in particular the long-term unemployed. Despite a commitment in 2012, as part of "Pathways to Work", to also devote efforts to the existing cohort of long-term unemployed (GOI, 2012), to date, most of them have not yet received the one-to-one interview where the needs of the individual are assessed by a caseworker and a personalised action plan is drawn-up and initiated. Maintaining long-term unemployed outside Intreo has a detrimental impact since activation is delayed and scarring continues.

Figure 13. **Skills gap index**



Source: Own calculations following Estevão et al., based on Eurostat data.

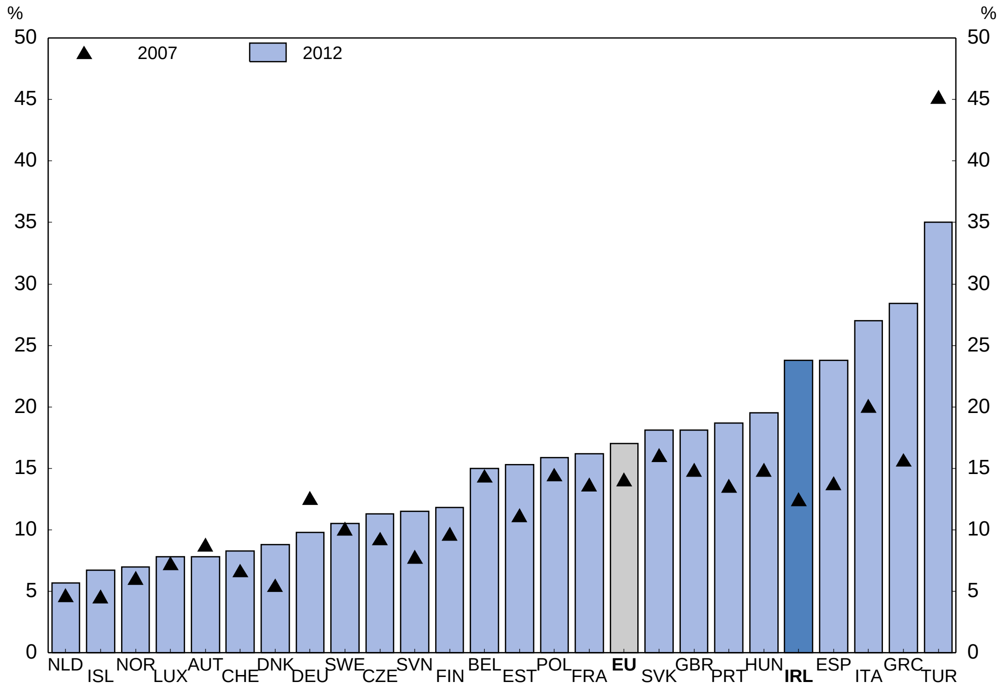
How to read this figure: The skills gap index is computed based on the gap between the proportion of the low, medium and high skilled in the working population and the corresponding proportion in employment. A rise in the index reflects increasing skill mismatches. For example, for Ireland the index increase from 1.4 in 2007 to 2.6 in 2011. This reflects that the gaps between the skills in the working population and those that are in employment have widened in that period.

Limited resources are devoted to job-search assistance (Table 3, "placement and related services"), even though this tends to be one of the least costly active labour market policies (Martin, 2000; Kluve, 2006) and has been shown to increase the probability of returning to work (McGuinness et al., 2011). While there are plans to double the number of caseworkers, at present each caseworker oversees approximately 800 jobseekers, which is very high by international standards. To reach more long-term unemployed persons, the Government is considering contracting out activation to private providers. The involvement of private sector service providers was already envisaged at the launch of "Pathways to work" (GOI, 2012) but no final decision has been taken yet, and it will take at least an additional year to set up the actual service provision. Experiences in other countries suggest that, if properly designed, contracting out can make a positive contribution but there are difficulties in implementing it in an effective way and empirical research suggests that contracting out may create a substitution effect, whereby those assisted by external providers displace other unemployed with no net effect on reducing unemployment (Crépon et al, 2013). As delays risk greater social exclusion and marginalisation, the number of caseworkers in Intreo should be further increased as soon as possible, through further internal redeployment, to provide long-term unemployment with engagement and support.

Training should be demand-driven to foster labour reallocation

The highest qualification of seventy-five per cent of those in long-term unemployment is a leaving certificate (equivalent to a secondary level qualification) or below. This group requires substantial training to acquire the skills and competencies demanded by job-creating sectors. So far the authorities have only partially responded to such needs. A new agency, SOLAS, to oversee the delivery of training to the unemployed, was announced in mid-2011 but had not begun operating two years later. It will also eventually be responsible for vocational training and other forms of further education. SOLAS should ensure that training is tailored to the evolving needs of participants and employers. In particular, recent evidence indicates that certain qualifications that significantly raised the probability of employment before the crisis (e.g. post-leaving certificate) no longer have such a decisive impact, while other qualifications (e.g. third-level qualifications) provide better prospects for exiting unemployment (Kelly et al. 2013).

Figure 14. **NEET rates among youth[1] in European countries**

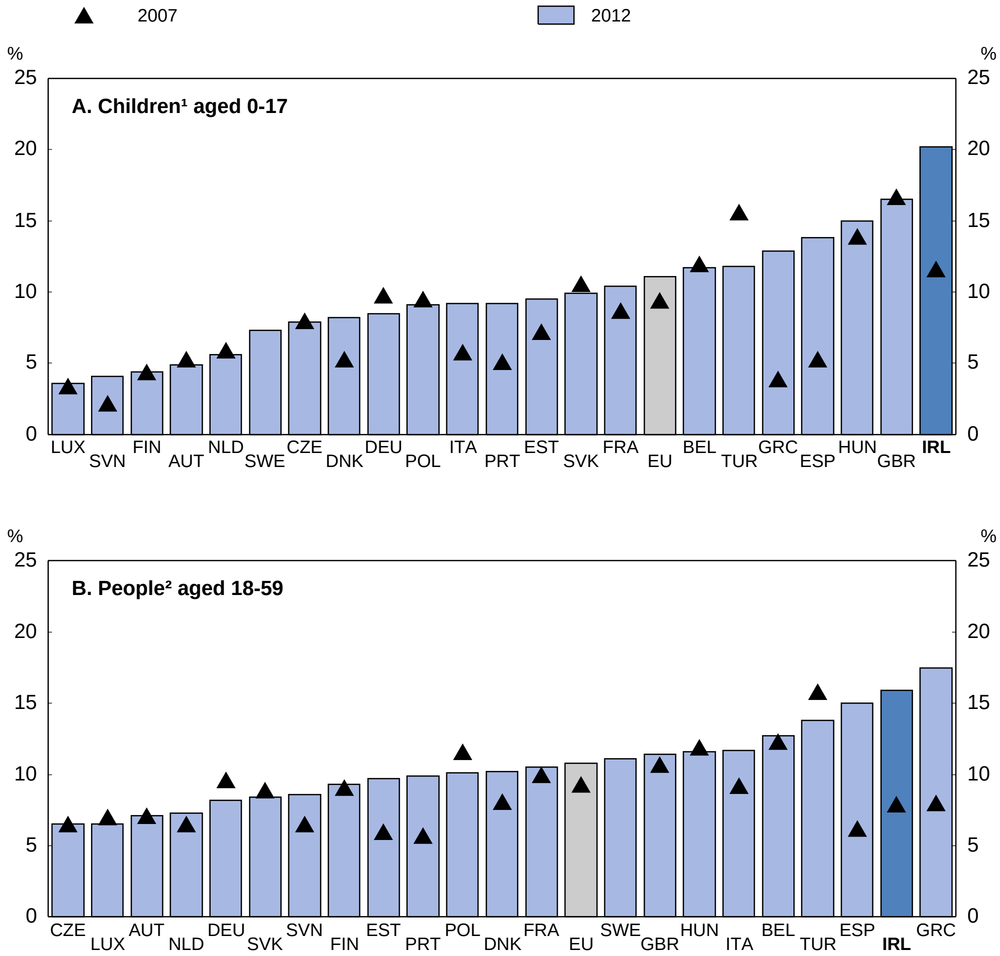


1. Persons aged 15-24.

Source: Eurostat.

The emphasis should be on courses providing the participants with high-level skills in fast-growth areas and that include a job placement component. This involves a tricky balancing act to ensure that participants can really build advanced skills, while gaining experience. Progression pathways between different education levels need to be established and long-term unemployed may require some pre-training schemes before entering other education programmes. New thinking about the approach to third level education courses, such as concentrating theory segments in blocks alternated with work placements will also be required. At the vocational level, the recently-launched *Momentum* programme seems to answer this need, although its scope so far is limited. At tertiary level, *Springboard* and the *ICT skills conversion* programmes, some of which are oversubscribed, establish clear links to current and emerging labour market needs. In these three cases, a thorough evaluation of the outcomes of the schemes should be undertaken and, if the initial promising results are confirmed, the programmes should be expanded.

Figure 15. **Population in jobless households**



1. Share of persons aged 0-17 who are living in households where no-one is working.
2. Share of persons aged 18-59 who are living in households where no-one works.

Source: Eurostat.

Internships allow younger workers to get a foothold in the labour market by gaining valuable working experience. *JobBridge* is the new National Internship Scheme, which seems to have good outcomes, partly reflecting that qualified participants with significant previous working experience enter the scheme. The authorities plan to double the number of places on *JobBridge* over the next year. It will also be important to increase the participation of youth without previous experience and of long-term unemployed. The apprenticeship system is geared towards providing relevant skills for the construction sector. As already recommended two years ago in the *previous OECD Economic Survey of Ireland*, the system needs to be adapted to the new economic environment to provide skilled workers to expanding sectors and engage SMEs in their design and delivery.

As part of the *Action Plan for Jobs 2013* a new initiative, *JobPlus*, will provide employers who hire a long-term unemployed person with a cash payment. Several similar programmes have suffered from low take-up, partly due to lack of awareness by employers and perhaps also reflecting too-high wages for the low-skilled in the current weak economic environment, particularly for SMEs. Compared to the median wage, the minimum wage does not stand out in international perspective (Figure 16), but the gap with the United Kingdom widened after the economic crisis. In conjunction with other relevant parameters, the Government should ensure that the minimum wage does not hamper employment of low-skilled workers and young people.

Given budgetary constraints, it is essential to prioritise programmes with proven effectiveness in raising the employability of participants, while phasing down those that do not help a return to work. For that, systematic and statistical-based independent evaluations of existing and new policies should be established. When launching a new programme, the structure to allow for the continuous evaluation should be also set-up. Resources should be reallocated to those policies found to increase the employability of participants to the detriment of less successful schemes.

Table 3. **Spending on active labour market programmes**

As a percentage of GDP

	Ireland		United Kingdom		Nordic countries[1]		Other OECD Europe[2]	
	2007	2010	2007	2009	2007	2010	2007	2010
Public employment service and administration	0.12	0.18	0.27	0.34	0.19	0.36	0.14	0.17
of which:								
Placement and related services	0.04	0.05	0.14	0.19	0.08	0.21	0.06	0.07
Benefit administration	0.03	0.08	0.06	0.07	0.06	0.08	0.05	0.05
Training	0.26	0.46	0.02	0.02	0.26	0.31	0.13	0.17
Direct job creation	0.21	0.25	0.01	0.00	0.03	0.04	0.08	0.10
Other active measures[3]	0.05	0.07	0.02	0.02	0.46	0.56	0.20	0.27
Memorandum:								
Active measures (total)	0.64	0.96	0.31	0.38	0.95	1.40	0.56	0.73
Active measures excluding direct job creation	0.43	0.71	0.30	0.38	0.91	1.37	0.49	0.63
Passive measures (total)	0.92	2.98	0.16	0.32	0.97	1.21	0.80	1.18

1. Simple average of Denmark, Finland, Norway and Sweden.
2. Simple average of EU-15 excluding Ireland and Finland plus Czech Republic, Hungary, Poland and Switzerland.
3. Job rotation and job sharing, employment incentives, support employment and rehabilitation and job start-up incentives.

Source: OECD/Eurostat Labour Market Programmes Database.

More targeted and comprehensive policies for disadvantaged

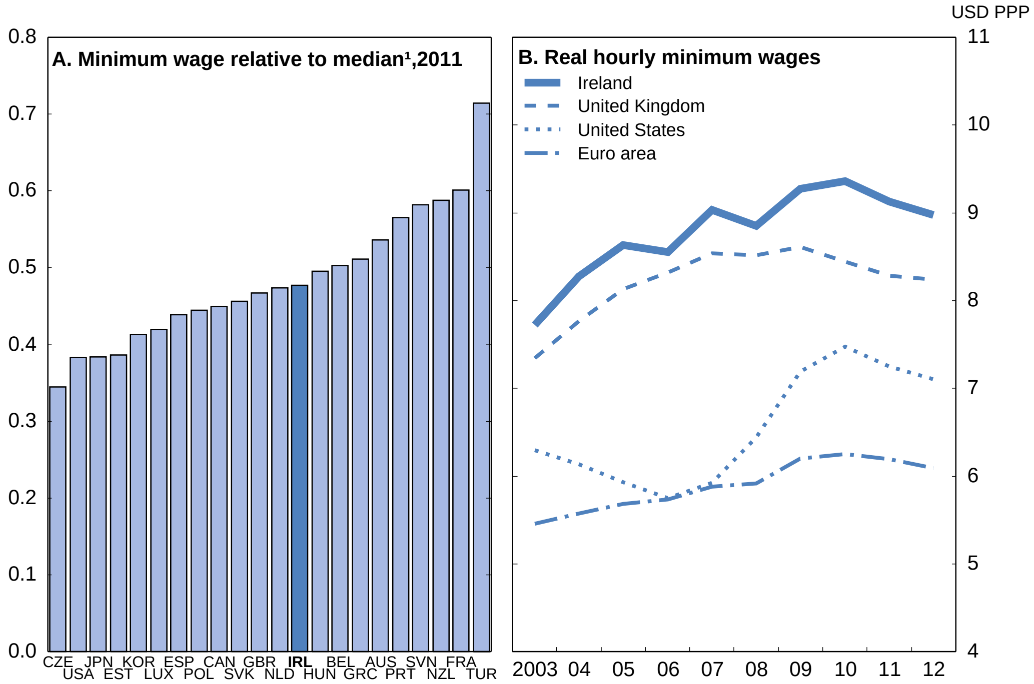
Those disadvantaged from personal circumstances, such as disability or illness, or from unfavourable social background require more specific forms of support (OECD, 2010b). Schemes, such as the ones being provided by *Youthreach*, where participants received more inclusive and specialized attention, including adult mentoring, seem to offer good outcomes. Youth suffering from disability enter into disability benefits at an early age, and disability assessments, contrary to international best practice, are based on medical diagnosis rather than an evaluation of work ability. Those out of work because of disability should receive greater attention from activation programmes to facilitate their reintegration into the labour market.

Irish social enterprises, which encompass non-profit institutions and for-profits whose driving purpose is social, employ a large number of disadvantaged or marginalised people, but the sector is underutilised compared with other European countries, and has potential for expansion. To realize such potential, the sector should have access to the same kinds of Government support as conventional enterprises, including access to finance, knowledge sharing and business support services.

Ireland's strong social support system has cushioned the impact on poverty

Poverty and social exclusion have increased since the onset of the crisis, as shown by the "anchored" poverty rate, which measure poverty in relation to a fixed median income level and rose by nearly 4 percentage points from 2007 to 2010 (OECD, 2013b). Ireland´s strong welfare system has cushioned the impact of poverty: if all social transfers were excluded from income, the relative at-risk of poverty rate would substantially increase to 51% (CSO, 2013). This rate is steadily rising reflecting an increasing dependence of individuals on social transfers to avoid poverty.

Figure 16. **Minimum wage**



1. Minimum wage relative to median wages of full-time workers.

Source: OECD Minimum Wages and Earnings database.

The Irish welfare system provides a critical and effective safety net, but it is essential to support the return of displaced workers to the labour market as the unique way to escape the risk of social exclusion. This involves a difficult trade-off between maintaining incomes at levels acceptable to Irish society and ensuring that people do not end up in welfare traps where the immediate income incentive to work is weak, locking them out of the long-term income and wider social benefits of employment. Prior to the recession passive labour market policies were accompanied with little monitoring and mutual obligation requirements. As the economic recovery strengthens, and employment prospects brighten, the emphasis should be re-geared towards active measures. It will become increasingly important to ensure stricter and rigorous mutual obligations regimes and to adjust the tax and welfare mix (discussed above) to reduce such traps. Welfare and tax adjustments should be made based on micro-based evidence that identify particular groups where the disincentive to work is high. For example, such evidence suggests that around 8% of the unemployed face a replacement rate of over 100%, often due to the receipt of housing related benefits that are available when in unemployment but rarely when in employment (Callan et al., 2012).

Box 3. **Recommendations on labour market activation policies**

Key recommendations

- To avoid rising structural unemployment and a drift into social exclusion, prioritise engagement with the long-term unemployed and increase the number of caseworkers supporting them, through internal redeployment.
- To reduce mismatches between supply and demand of skills, better align the content of education and training schemes so that they provide skills required in the expanding sectors.
- Focus limited fiscal resources on policies empirically-proven to improve employability; this will require systematic evaluation of labour-market programmes through consistent tracking and randomized trials, followed by decisions to close down ineffective schemes while strengthening successful ones.

Box 3. **Recommendations on labour market activation policies** *(continued)*

Other recommendations

- To minimize the detrimental and enduring impact of long-term unemployment, establish a youth compact whereby those in unemployment will receive a compulsory offer of training, work or a combination.
- To avoid the perpetuation of social exclusion and risk of poverty, put a stronger emphasis on encouraging and facilitating the return to work of those more detached from the labour market.

Improving the environment for innovation and entrepreneurship

Ireland offers an environment auspicious to innovative firms (Global Innovation Index, 2012), reflecting strong institutions, fine universities, good infrastructure and a well-educated workforce. However, innovation is concentrated in multinational firms, while domestic ("indigenous") SMEs lag behind. A broader diffusion of innovation would be conducive to stronger economic performance, as investing in innovation is linked with increased productivity and growth (Box, 2009) and innovative new firms tend to be the greatest contributors to job creation (Lawless, 2013, OECD, 2012a). In Ireland, firms with greater sales due to innovation are more productive (Squicciarini et al., 2013). The Government has expanded the innovation system from a relatively low base during the past two decades (Figure 17). More recently, it has decided to focus a large part of its research spending on 14 priority areas. Nonetheless, more could be done to promote innovation and entrepreneurship.

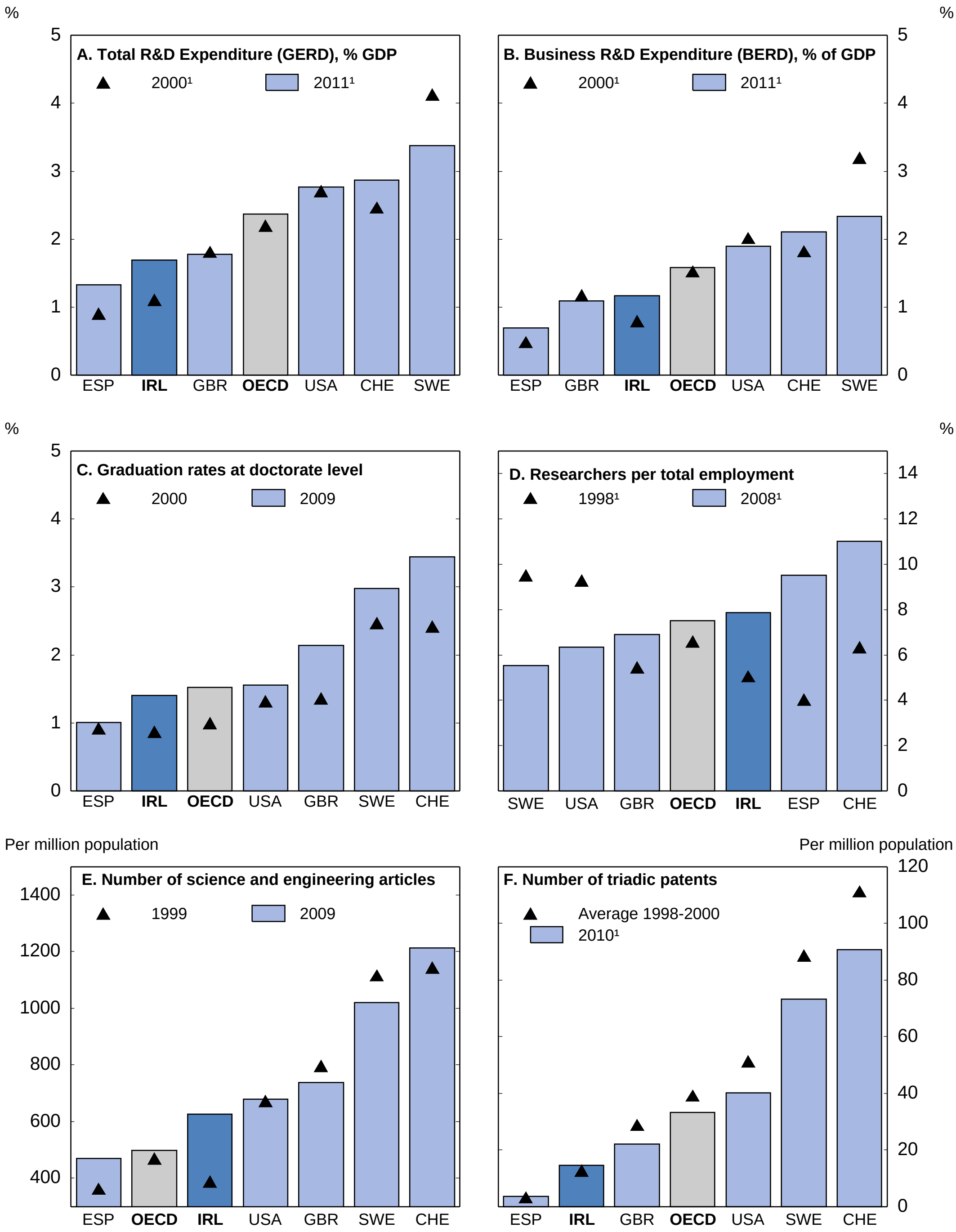
Enhancing the institutional framework for innovation and enterprise supports

Further promoting research activity would require additional budget funding, which at present is lacking. These fiscal constraints put a premium on effective allocation to areas of highest returns, requiring regular, independent evaluation of research programmes and innovation supports. As there is a particularly high level of uncertainty about which policy tools are the most effective, the authorities should stand ready to reallocate resources. This involves rigorous evaluation of programmes, shutting down those that are shown not to work, while expanding the most effective schemes. Given political-economy realities and resistance to change, sunset clauses attached to innovation and enterprise support programmes would help to enforce such a policy. Although sunset clauses reduce the certainty of funding, they would speed up the reallocation of funds to the most effective programmes. In this context, it is welcome that the government launched a review of the R&D tax credit, following an increase in its generosity over time.

The number of programmes and agencies multiplied during the period of booming growth. There are now over 170 separate budget lines, sometimes for very small amounts of money, and 11 major funding agencies involved in disbursing the Science Budget, although it is small by international standards (Figure 18). This fragmentation raises overheads, risks duplication and hampers resource reallocation. Gains would be achieved by consolidating funding into a drastically smaller number of agencies, with one group dealing with science and basic research, and another with applied research and innovation. This should be coupled with a high-level coordination committee to prevent gaps or duplication. This division between basic research and business-orientated innovation is the norm in almost all other small OECD countries and reflects the large differences in the types of activities, rationales for support and policy instruments. Consolidation would also make it easier to evaluate the overall economic impact of the innovation system and improve the Government's ability to direct investment for maximum returns.

A proliferation of innovation agencies and programmes is a frequent problem. Several countries, including Austria, Finland and the Netherlands, have consolidated support in the past (OECD, 2005), and consolidation has been recommended for Sweden, which has a large number of funding agencies (OECD, 2012b). Austria now has a national "one-stop-shop", the FFG, which provides the bulk of applied R&D funding, following the merger of several agencies. In Finland, the Tekes agency funds applied research conducted by all types of firms, whether small or large, regardless of ownership, and it also supports researchers in universities and elsewhere. A similar approach in Ireland could help to build linkages across firms, especially between domestic and multinational firms, and strengthen relationships with HEIs.

Figure 17. **The expanding Irish innovation system**

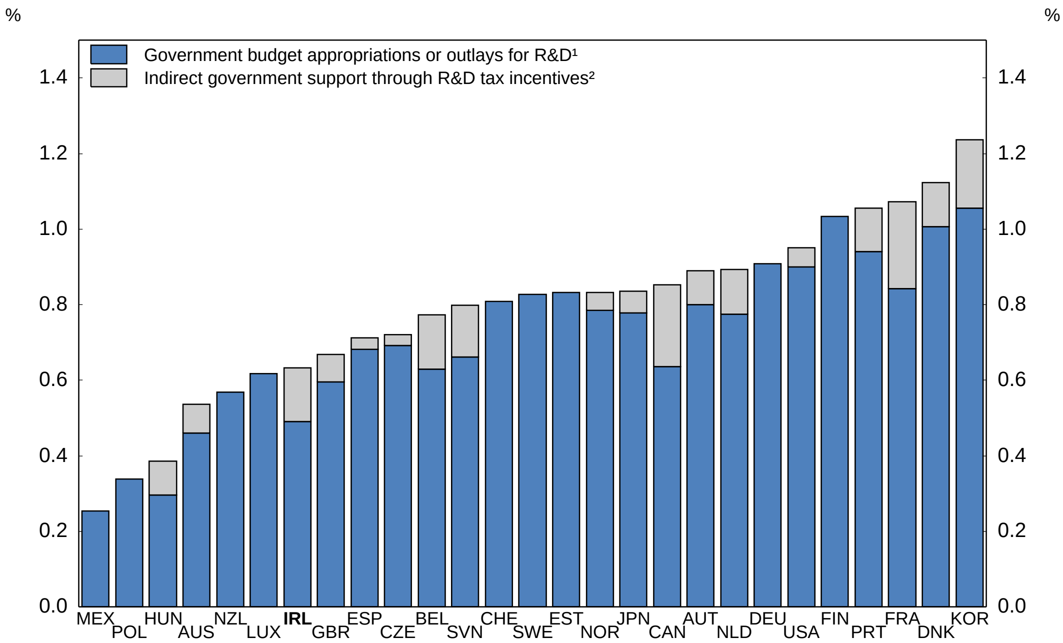


1. Or nearest/latest data available.

Source: National Science Foundation, National Center for Science and Engineering Statistics, and The Patent Board, Special tabulations (2011) from Thomson Reuters, SCI and SSCI, *http://thomsonreuters.com/products_services/science*; OECD Science, Technology and Industry Scoreboard 2011, OECD 2011 and OECD Main Science and Technology Indicators database.

Figure 18. **Government support for research**

As a percentage of GDP



1. 2012 or latest year available. Measures the funds committed by governments for R&D to be carried out domestically or abroad (including by international organisations).

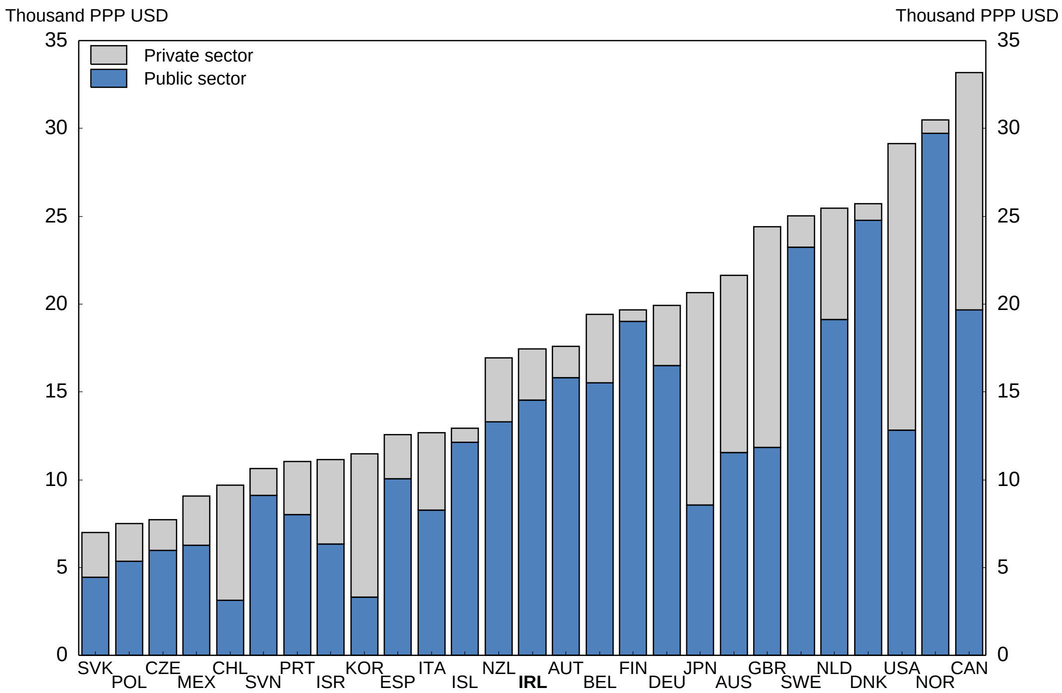
2. 2009.

Source: OECD Main Science and Technology Indicators database.

Higher Education Institutions (HEI) employ researchers, train future researchers and conduct fundamental research on which the rest of the system rests. The Government has allocated significant funds to HEI-based research centres, but total spending (public and private) per tertiary student, which was around the OECD median (Figure 19), has been compressed by the crisis. HEIs have increased efficiency, including through new ways of working, but nonetheless their international ranking has fallen due to academic reputational effects. The reductions in funding directly from the Exchequer will require careful management to ensure that the higher education system continues to underpin Ireland's attractiveness as a location for multi-national investment and Ireland's capacity to operate as a high quality research partner. Ireland should ensure that its allocations of public funding to higher education promote the optimal alignment of the higher education system with innovative, high-value enterprise. Ireland should also explore the potential for a greater contribution from students themselves to the cost of higher education, including the potential for student loans.

New ways to fund HEIs could make this difficult situation more manageable. HEIs could be given multi-year funding envelopes, instead of annual budgets, so as to help them undertake activities requiring medium-term planning. In addition, HEI funding should better take account of differing levels of student growth across sectors. The Higher Education Authority (HEA) determines how funding is allocated between HEIs. Since 2007, funding for Institutes of Technology (IoTs) has transferred to the HEA from the Department of Education and Skills. Since then, the HEA has applied the percentage change in the overall budget equally to both the IoT and university sectors. Funding to each HEI is then allocated using a formula-based funding model which links student numbers to course types. To allow better reallocation of funding in line with changing patterns of student demand the percentage change in the overall allocation to IoTs and Universities should be in line with the overall relative demand for places by students. This would also facilitate the greater clustering of HEI institutions to facilitate more joint research, as planned by the Government. The Government should also, as it intends as part of its third level reform agenda, continue to move towards complementing core funding with a more comprehensive performance-based funding component, based on an agreed strategy for each institution and using output targets and clearly defined indicators. The student contribution has risen rapidly in recent years and will reach around EUR 3 000 by 2015. Ireland already has a grant scheme, but should also introduce an income-contingent loan scheme, as in other countries with high fees, such as Australia and the United Kingdom (OECD, 2006). HEIs with research centres should also have more autonomy over employment and salary conditions in certain defined cases consistent with overall public pay policies. This should be coupled with benchmarking and monitoring to ensure accountability. In particular, HEI research centres should be able to hire staff not as civil servants but on contracts that better match their needs subject to controls.

Figure 19. **Expenditure per student by funding source in the tertiary education system in 2010**[1]



1. 2009 for Germany.

Source: OECD Education database.

Improving framework conditions for innovation and entrepreneurs

Due to long lead times from R&D to commercialisation, innovation requires advanced funding, which entails large risks and is difficult to collateralize. The shrinkage of bank credit provided to firms has potential damaging effects on innovation, thereby increasing the importance of alternative sources of finance. Government credit guarantees, though not without risks, could alleviate, at least temporarily, some of the problems, and the Government has recently introduced a credit guarantee scheme. A more sustainable source of finance should be sought through market-based alternative, like SME loan securitisation (including covered bonds) and mezzanine (hybrid debt/ equity) financing instruments (OECD, 2012c; OECD, 2013c). Informal forms of equity financing like crowd funding could help small dynamic start-up companies. For such companies, venture capital provision in Ireland is around the OECD median. In line with trends elsewhere in the OECD, the Government is increasing the number of Government-sponsored schemes (OECD, 2013d), but the increasing range of schemes and public money being committed calls for better evaluation.

A vibrant Initial Public Offerings (IPO) market is a vehicle for realizing the benefits of innovation (OECD, 2013d), but the Irish IPO market is small. Reducing regulatory reporting requirements for newly listed companies and increasing incentives for brokers to research and promote SME listings could improve market information and thus stimulate IPOs. Longer-term investment in small-cap stocks could be encouraged by reducing capital gains taxes on stock held for several years (IPO

Taskforce, 2011). Demutualising the Irish stock exchange itself in an IPO is a potential avenue to provide fresh capital to the exchange (Forfas, 2013).

Intellectual property rights (IPR) are another avenue to allow innovators to benefit. The Government has developed a new IPR protocol to improve intellectual property rights agreements (DJEI, 2012). IPR negotiations could be further standardised by placing responsibility for the legal processes with the new central Technology Transfer Office.

Entrepreneurs, as well as creditors and the economy, stand to gain from better insolvency procedures. According to the *World Bank Doing Business* indicator, Ireland's cost of insolvency procedures as a percentage of debtor assets is relatively high. The Companies Bill of 2012 proposes to allow small companies to apply to the cheaper Circuit Court instead of the High Court. Likewise, the Jobs Action Plan of 2012 proposes non-judicial debt settlement for SMEs. Both would reduce costs and are therefore welcome.

Box 4. **Recommendations to foster innovation and entrepreneurship**

- Reflecting significant uncertainties about the effectiveness of various innovation policy tools, independently and regularly evaluate all actions in this area, strengthen programmes with proven higher returns, and wind down the others. To promote effective evaluation, ensure all innovation and enterprise supports have sunset clauses.
- To increase the effectiveness and cost-efficiency of the innovation and research policies, and make it easier for businesses to access support, consolidate innovation funding and actions into a smaller number of Government agencies.
- To increase capital supply and encourage entrepreneurship, lower costs for small-cap IPOs, centralize legal processes for intellectual property rights (IPR) transfers with the new central technology transfer office and introduce changes to the examinership process without delay.

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Annex A.1.

Progress in structural reform

This annex reviews actions taken on recommendations from previous *Surveys*. Recommendations that are new in this Survey are listed at the end of the relevant chapter.

Recommendations from previous Surveys	Action taken since the October 2011 Survey
Public debt sustainability and public sector efficiency	
Implement the EU-IMF financial assistance programme to reduce the deficit to below 3% of GDP by 2015. Put money saved from interest rate reductions on official financial assistance towards faster consolidation. Providing growth allows reduce the deficit faster than required by the programme. Focus the consolidation effort more on reducing spending. Broaden the tax base.	The targets established in the programme have been consistently met. The new property tax was introduced in 2013.
Proceed with the implementation of a new fiscal framework. Produce a multi-year budget. Use a ceiling for nominal expenditure in each year of the medium-term framework. Establish a central role for the Fiscal Council in the budget framework and continue to appoint international fiscal policy expertise to it.	The Fiscal Responsibility Act, 2012 provides a legislative basis for fiscal rules. A medium-term expenditure framework with binding multi-year expenditure ceilings will be legislated in 2013, and provides a legislative basis for the existing administrative ceilings. Fiscal Advisory Council set up with an independent role in assessing the official forecasts, the fiscal stance and compliance with budgetary rules. International expertise appointed to the Council.
Focus on a debt-to-GDP target to be achieved by a specified date.	Ireland is committed under the new EU Fiscal Compact requires to reduce general Government debt to below 60% of GDP at a rate of no less than 1/20th of the excess over 60% per annum until the target is met. Following Ireland's exit from the programme, and a subsequent transition period, this will come into effect in 2019.
Introduce better performance indicators with historical data so that performance trends can be seen. Concentrate indicator development on large expenditure items, particularly education and health. Require a performance narrative to accompany indicators linking outputs with the Government's desired outcomes.	The format of the Revised Estimates Volume has been restructured. For nearly all Departments' and Offices, spending allocations are grouped by strategic programme and accompanied by performance information. This includes the actions taken to deliver upon specified objectives and the measured impacts of those actions. Ireland Stat has been introduced to present a whole-of-Government performance measurement system linking high level goals with inputs, outputs and impacts. Following a pilot it will be extended to all spending votes.
Make service provision to or on behalf of Government more contestable through benchmarking, yardstick competition, contracting out, as well as introducing greater user choice.	The Government's Public Service Reform Plan (November, 2011) sets out a number of key areas for action around increased contestability, competition and efficiency in delivering public services. These include the introduction of shared services for administrative functions and an overhaul of the public procurement function to ensure greater value for money and market access.

Progress in structural reform (continued)

Recommendations from previous Surveys	Action taken since the October 2011 Survey
Reduce the number of agencies through mergers with Government departments or other agencies and introduce sunset clauses that require a regular review of the need for an agency.	Rationalisation and amalgamation measures involving 25 bodies have been fully implemented. Measures involving a further 83 bodies are at advanced legislative or administrative stages. Further rationalisation and amalgamation measures, involving 107 bodies, were identified undertaken in 2012 as part of the Public Service Reform Plan. The Plan also includes a commitment that all legislation to create new State Bodies must include a sunset clause.
Consider giving senior agency and department management responsibility for managing their labour costs within a centrally set wage envelope.	No action
Open up recruitment to the public service at all levels to private sector candidates.	Open recruitment is more commonly used as part of the on-going reforms to the public sector.
Banking	
Keep NAMA focused on its long term mission of managing its assets to achieve the best possible return for the taxpayer and refrain from activities that increase the contingent liabilities of the Government.	NAMA has generated over EUR 12 billion in cash, has repaid EUR 6.25 billion of its senior debt and is on course to meet the EUR 7.5 billion end-2013 target redemption. It has applied its 80/20 initiative (offers home buyers 20% protection from the risk of further house price declines) on a limited scale (400 properties offered to date with 165 sold). NAMA reports regularly in a detailed way on its activities.
As financial market confidence returns, narrow the bank liability guarantee scheme to a more restricted range of liabilities.	The Eligible Liabilities Bank guarantee was closed to new liabilities from as of 28 March 2013.
Adopt the standards envisaged by Basel III.	The Basel III global accord will be transposed into EU Member States laws via a directive known as Capital Requirements Directive IV and the Capital Requirements Regulation. They will be published by end June 2013 and Ireland is committed and taking action to transpose those into national law by 31 December 2013.
Consider using a leverage ratio (total un-risk-weighted assets over capital) as a back-stop to capital ratios.	No action.
Consider using further rule based regulation, such as caps on the ratio of loans to values (LTV) or incomes (LTI).	No action.
Consider a credit register to prevent excessive exposures to certain sectors and borrowers.	Credit Reporting Bill to introduce a register published in September 2012. As of June 2013 under consideration by the parliament but not yet enacted.
Consider introducing a well-defined process where the breach of identified benchmarks on a few indicators, such as excessive growth in overall lending, would accelerate a formal assessment of what, if any, corrective action may be required.	The Government has set the two pillar banks (AIB and Bank of Ireland) lending targets of EUR 4 billion each in 2013. The banks are required to submit their lending plans to the Department of Finance (Department) and the Credit Review Office (CRO) at the beginning of each year, outlining how they intend to achieve their lending targets. The banks submit monthly lending figures to the Department and meet with the Department and the CRO on a quarterly basis to discuss progress. The Economic Management Council meets the banks on a regular basis and discusses the key issues pertaining to SME credit.

Progress in structural reform (continued)

Recommendations from previous Surveys	Action taken since the October 2011 Survey
Make strengthening of the banking issues division of the Department of Finance permanent.	As part of the restructuring of the Department of Finance a permanent banking policy division has been established.
Resume the publication of financial stability reports.	Semi-annual Macro-Financial Reviews published by the Financial Stability Division of the Central Bank of Ireland since March 2012.
Labour Market and Welfare	
Decrease unemployment benefits with unemployment duration.	Jobseeker's Benefit duration was reduced from twelve months to nine months for recipients with 260 or more contributions paid and from nine months to six months for recipients with less than 260 contributions paid, in 2013.
Review the coherence and work incentive effects of other welfare benefits. Ensure that safety-net payments never exceed the value of the reformed unemployment benefits. Move away from rent supplement to other forms of housing benefits. Consider moving towards a single working age social assistance payment.	The Advisory Group on Tax and Social Welfare is currently analysing working age income supports with a particular focus on addressing anomalies in the interaction of the tax and social welfare codes. The Supplementary Welfare Assistance (SWA) payment is paid at a lower rate than either Jobseeker's Allowance or Benefit. The One Parent Family Payment (OFP) and the Farm Assist Schemes have been reformed and brought into closer alignment with the Jobseeker's Allowance (JA) scheme. The provision of rental assistance to persons with a long-term housing need is being transferred from the Department of Social Protection to housing authorities using a new Housing Assistance Payment (HAP).
Increase efficiency in public employment services and engage more actively with job seekers, while enforcing tighter requirements for job search and participation in relevant ALMPs. Make greater use of direct referrals of jobseekers to job vacancies posted by firms.	Pathways to work and 'Intreo' one-stop shops started functioning in October 2012. This approach includes client profiling, integrated decisions of welfare claims, group engagements, tailored individual engagements (including job referral), and a 'record of mutual commitments' between clients and the Department of Social Protection. Elements of the approach (for example profiling and group engagements) are active in all offices. The full comprehensive approach is in place in offices covering as of June 2013 16% of all unemployed.
Improve the alignment of training programmes with participants' background and labour market skill needs.	Education and training provision is informed by the National Skills Strategy, the Strategy for Science Technology and Innovation, the Report of the Task Force on Innovation, the National Strategy for Higher Education to 2030, the Action Plan for Jobs and Pathways to Work. The Expert Group on Future Skills Needs informs the selection of new targeted programmes designed to tackle the skills shortages, in particular elements of the economy, e.g. Springboard (10 000 places in last two rounds), Momentum and the ICT skills conversion initiative (1 500 places in two rounds).
Enlarge the set of trades covered by apprenticeship programmes and temporarily close apprentice admission in construction trades. Make programme duration more flexible across trades.	A review of the apprenticeship model is currently under way to re-focus it as an alternative progression route to third-level education for school leavers and explore connections with other further education and training provision.
Increase workplace training in vocational education programmes.	Courses under the Momentum programme include a significant work-based element.

Progress in structural reform (continued)

Recommendations from previous Surveys	Action taken since the October 2011 Survey
Reduce participation periods in job creation schemes, and enable employment officers to impose compulsory participation. Decrease payments to participants in line with the reformed unemployment benefits, and strengthen the schemes' training and educational content.	Payments to participants have been reduced. In addition, recruitment processes have been altered to ensure that the case officer is centrally involved.
Extend the duration of the recent cut in employers' social security contributions (PRSI) for low-wage workers.	JobPlus giving employers a fixed payment for hiring long-term unemployed to be implemented and replace the social security reduction, which received a low take-up.
Conduct an independent assessment of the job creation impact of the new VAT reduced rate.	Independent assessment of job creation impact undertaken in 2012.
Re-assess the minimum wage on annual basis and take into account falling wages. Re-consider the system of sectoral minimum wages.	Government policy is that National Minimum Wage will not be reduced. See below for reforms on sectoral minimum wages (see REAs and EROs).
Require lone parents to seek work once their children reach school age.	The Department of Social Protection is currently undertaking comprehensive reform of the One-Parent Family Payment (OFP). The reforms see a reduction in the age threshold of the youngest child at which a lone parent is still eligible for the OFP. The age is being reduced to seven years of age on a phased basis between July 2013 and the end of 2015. Lone parents who still have an income need may apply for another social welfare payment.
Systematically evaluate the work capacity of disability benefit recipients. Illness benefit should be limited to one year, after which recipients should be assessed for their work capacity.	The introduction of the Partial Capacity benefit scheme in February 2012 provides for work capacity assessments for those recipients of Illness Benefit (for six months+) and Invalidity Pension who wish to take up employment opportunities.
Restoring competitiveness	
Implement planned reforms to Employment Regulation Orders (REOs) and Registered Employment Agreements (REAS), and go further by allowing firms to opt out through collective agreement.	Legislation passed (2012) reforming REOs and REOs. Employers not originally party to an REA, but who are subject to it, can now apply to the Labour Court to vary its terms. In May 2013, the Supreme Court declared unconstitutional provisions of the 1946 Industrial Relations Act governing REAs. The Judgment also casts doubt on whether provisions of 2012 legislation would withstand constitutional challenge.
Keep a tight control of public sector wage expenditure.	There is continuing control on wage costs and numbers employed, and maintenance of reductions already implemented. In addition, the Financial Emergency Measures in the Public Interest Act 2013, effective from 1 July 2013, includes a reduction in the remuneration of certain public servants on higher rates of pay in excess of EUR 65 000, and the reduction of pension or other benefits payable to persons who are or were in the public service under an occupational pension arrangement, and in receipt of pensions greater than EUR 32 500. The Act also provides for contingency measures for savings to the public pay bill, including provision for a suspension of incremental progression for three years for all public servants unless they are covered by a collective agreement.
Set up an independent regulator for the legal professions.	Legal Services Regulatory Bill inter alia setting up a new regulator introduced to the parliament but legislation has not passed. It is expected that the Bill will be enacted by end year.

Progress in structural reform (continued)

Recommendations from previous *Surveys*	Action taken since the October 2011 *Survey*
Decrease vertical integration in electricity and gas.	Bord Gáis Éireann's (BGE) electricity supply and generation businesses being sold, leaving BGE as a network company.
Transfer the ownership of the electricity transmission network assets from the ESB to EirGrid.	The current arrangements of the transmission assets being owned by ESB, but operated by an separate independent company, Eirgrid, as the transmission system operator, was certified by European Commission decision in May 2013.
Reform the feed-in tariff scheme for electricity from renewable energy sources (REFIT). Bring to an end support for offshore wind, tidal or wave electricity, as well as the fixed part of REFIT payments.	Ireland no longer has support for offshore wind, tidal or wave electricity. In line with European Commission guidelines the Government intends to design a new support scheme that takes account of the structure of the market that will operate in Ireland from 2016, with the aim of revising and reducing price supports for new onshore wind projects over time, while recognising the need for a predictable and transparent policy framework.
Increase the duration of daily classes in the Pre-School Year and open it to children soon to be three.	In the short-term due to resource constraints the focus has been on ensuring and enhancing quality of existing service provision.
Concentrate support for research in fewer centres of excellence. Improve co-ordination between researchers and with industry.	In 2012 SFI launched a new Research Centres programme to consolidate its supports (to 28 existing centres) into a smaller number of larger centres with enhanced industry contribution and participation. As a result 7 large-scale centres (partly a combination of some of the existing SFI CSETs and SRC) will be established during 2013, with a total budget of EUR 300 million over the period to 2019 and 800+ researchers Over EUR 100 million of this funding is being provided from 150+ industry partners connected to these 7 centres. Funding for 10 of the remaining SFI SRCs expires at the end of 2013/early 2014. It is envisaged that SFI will be supporting around 15 to 18 larger centres by the end of 2014.
Centralize support to the internationalisation of indigenous enterprise in Enterprise Ireland, and rationalize the overseas office networks of state agencies.	Enterprise Ireland staff have been re-directed towards non-EU high growth markets over the past 10 years. In 2012, 42% of EI's offices and 33% of EI's overseas staff were dedicated to Asia Pacific and emerging high-growth markets of Latin America, South Africa and the Gulf – up from 26% of its offices and 13% of overseas staff who were dedicated to these regions in 2003.
Upscale efforts to promote co-operation between industry and researchers and concentrate resources in a smaller number of centres of excellence, with prioritisation informed by systematic performance assessment.	Forfás is carrying out an evaluation of large number of enterprise support programmes in 2013. Implementation of the Research Prioritisation Programme, which inter alia aims to strengthen collaboration with enterprise, is underway. Action Plans have been developed for each of the 14 Research Priority Areas and are being brought to Government in June 2013. The Prioritisation Action Group has been established to support collaboration among research funders across the 14 Priority Areas.
Further assess the effectiveness of the R&D tax credit scheme, and make it more focused on additional R&D activity if significant deadweight costs are confirmed. Introduce greater flexibility in the way firms can account for this tax credit.	Changes were introduced in Finance Act 2011, which allowed the credit to be accounted for 'above-the-line', i.e. claimed against payroll tax expenses rather than corporate tax liabilities. A value-for-money review of the R&D Tax Credit is underway in 2013 and expected to be completed by year-end. It will include a cost benefit analysis and an international comparison to further assess the competitiveness of the scheme.

Annex A.2.

Structural Reforms to Lift Growth

Table A2.1. **Scoresheet: Sustainable inclusive growth**

	Year	Ireland[1]	Best OECD country	Specific problems
Well being				
Human Development Index	2012	8/187	Norway	
OECD Better Life Index	2011	15/34	Australia (with equal weights on components of the Index)	
GDP per capita growth 2000-2011	2000-11	23/34	Slovakia	
GNI per capita level	2011	17/34	Norway	
Business Environment				
World Bank Ease of Doing Business	2013	15/185	New Zealand	
Global Competitiveness Index (GCI) Overall	2012-13	27/144	Switzerland	
Labour				
Unemployment rate	2012Q4	30/34	Korea	
Unemployment long-term share	2012	32/33	Korea	
Innovation				
TFP Growth 2005-2012	2005-12	9/34	Slovakia	
Change in TFP Growth 1998-2004 to 2005-2012		21/34	Israel	TFP growth halved
Patents per million population	2010	18/34	Japan	
Doctoral Graduation rates	2009	19/34	Switzerland	
Financial Stability				
Non-performing loans percentage	2012	30/31	Luxembourg	
Access to Credit for SMEs				
GCI Financing through Local equity market	2012-13	94/144	Norway	
GCI Availability of Venture Capital	2012-13	88/144	Israel	
Environment				
Nitrogenous Fertilizer use	2006	25/30	Iceland	Usage is well above average for OECD Europe
Municipal waste generation per capita	2011	29/33	Estonia	
Air pollutants (Nitrogen Oxides per capita)	2010	9/34	Switzerland	
Greenhouse gas emissions per capita	2010	26/34	Chile	
Equity				
Gini Coefficient whole population after taxes and transfers	Late 2000s	12/34	Slovenia	
Gini Coefficient over 65 after taxes and transfers	Late 2000s	18/34	Czech Republic	
Governance and Institutions				
Transparency International Corruption Perception	2012	25/176	Denmark, Finland, New Zealand	
Financial Secrecy	2011	3/71	Spain	
Press Freedom	2011-12	15/179	Finland	
GCI Judicial Independence	2012-13	4/144	New Zealand	
GCI Public Trust of Politicians	2012-13	50/144	Norway	
GCI Wastefulness of Government spending	2012-13	73/144	Switzerland	
GCI Burden of Government regulation	2012-13	46/144	Finland	

1. Rank from best/least restrictive to worst/most restrictive.

Table A2.2. **Structural levers to lift sustainable, inclusive, growth**

	Year	Ireland[1]	Best OECD country	Specific problems
Business Environment				
OECD Product Market Regulations (PMR)				
Overall PMR	2008	3/34	United Kingdom	
Licences and permits	2008	31/34	Austria	
Government involvement in infrastructure sector	2008	30/34	United Kingdom	
OECD professional services PMR	2008	3/34	Sweden	
OECD legal PMR	2008	15/34	Sweden	
Regulation on forms of legal professional cooperation	2008	34/34	10 countries	
Regulation legal professional education requirements	2008	19/34	3 countries	
OECD retail trade PMR overall	2008	5/34	Sweden	
Protection of existing retail firms	2008	29/34	10 countries	
OECD electricity transport communications PMR overall	2007	28/34	United Kingdom	
Rail overall	2007	30/34	United Kingdom	Entry, Public ownership, market structure, vertical integration
Gas overall	2007	29/34	Canada	Public ownership, market structure
Electricity overall	2007	26/34	United Kingdom	Public ownership
World Bank Doing Business				
Dealing with construction permits	2013	106/185	New Zealand	Fees and time for planning permission, fire safety and disability certificates
Getting electricity	2013	95/185	Iceland	Electricity network company fees and time to connect
Enforcing contracts	2013	63/185	Luxembourg	Legal and court fees and trial/judgment times
Registering property	2013	53/185	New Zealand	Conveyancing time and stamp duty
Trading across borders	2013	28/185	Korea	Document preparation, customs and port fees
Global competitiveness index				
Strength of auditing and reporting standards	2012-13	66/144	Finland	
Regulation of securities exchanges	2012-13	76/144	Finland	
Protection of minority shareholder interests	2012-13	40/144	Finland	
Number of days to start a business	2012-13	59/144	New Zealand	New Zealand 1 day versus 13 in Ireland
Labour				
OECD Employment Protection Legislation (EPL) overall	2008	7/34	United States	
OECD EPL balance permanent & temporary protection	2008	23/34	Austria and Estonia	
GCI flexibility of wage determination	2012-13	106/144	Estonia	Less bargaining is at firm level
GCI hiring and firing practices	2012-13	75/144	Switzerland	More impeded by regulation

Table A2.2. **Structural levers to lift sustainable, inclusive, growth** *(continued)*

	Year	Ireland[1]	Best OECD country	Specific problems
Innovation				
GBAORD per cent of GDP	2012	21/27	Korea	
Expenditure per student in tertiary education USD PPPs	2009	13/22	Norway	
GCI Government procurement of advanced tech products	2012-13	88/144	Israel	
Environment				
Environmental taxes per cent of GDP	2010	13/34	Denmark	Taxes on energy products low, taxes not linked to carbon emissions
Environmentally harmful tax exemptions and subsidies				No VAT on fertilizers, tax relief on water and waste charges, subsidies for electricity production from peat and domestic aviation
Equity				
Government services redistribution effect (per cent reduction in Gini)	2007	1/34	Ireland	
Compulsory or auto enrolment in earnings related pensions pillar	2013	No	33/34 OECD countries	
Governance and Institutions				
Applying for official Information online	2010	No	26/32 countries allow	
Disclosure of *Liabilities* by senior members of 3 branches of Government	2010	No	70% of OECD countries require this for the Executive and Legislative Branches and 40% for the judicial branch	
Publication of administrative data sets	2010	No	22/32 countries compelled or routinely do this	
Publication of audit documents	2010	No	23/32 OECD countries compelled or routinely do this	

1. Rank from best/ least restrictive to worst/most restrictive.

Source: OECD, World Bank, World Economic Forum, Tax Justice Network, Transparency International, United Nations, Reporters Without Borders.

Chapter summaries

Chapter 1. Getting youth on the job track

Irish youth was hit hard by the crisis. Many young workers have remained unemployed for a long time and, unless it is tackled promptly, this issue will become one of the most enduring legacies of the recession. New labour-market policy initiatives have been introduced recently, but more will be needed to limit scarring effects and keep youth connected so that they can get back to work as soon as the recovery strengthens. For many young workers learning new skills is the way to get ready. The Irish economy is shifting away from bricks and mortar towards knowledge-based services, and those previously employed in construction-related activities need to acquire the skills and competencies required in these expanding sectors. For those who have already drifted into more marginalised environments, a longer process of rehabilitation will be necessary to escape poverty and social exclusion. This chapter recommends focusing limited fiscal resources on policies empirically-proven to help regain employment; this will require systematic and rigorous evaluation of labour-market programmes and policy decisions to close down ineffective schemes while strengthening successful ones.

Chapter 2. From bricks to brains: increasing the contribution of knowledge-based capital to growth in Ireland

With sound framework conditions, fine universities, good infrastructure and policies friendly towards foreign direct investment, Ireland scores high in international innovation scoreboards. Overall, policies to boost innovation and entrepreneurship are on the right track, but investment in knowledge-based capital could be made a more dynamic source of growth and jobs. While Ireland has made good progress towards building up its scientific capabilities, innovation capacity remains weaker than in other small advanced OECD countries, such as Austria, Denmark, Sweden and Switzerland. To become more effective, the innovation strategy should be simplified, with a drastic reduction in the number of government agencies involved in funding innovation, so as to better focus on strengthening the linkages between the business and academic communities. While attracting high-tech multinationals should remain central, there is potential to better develop spillovers between these firms and domestic SMEs, notably by establishing applied research centres. Entrepreneurship should be fostered by improving the business environment, including access to non-bank finance, streamlining the insolvency regime and transfer of intellectual property rights, and upgrading the broadband network.

This Survey is published on the responsibility of the Economic and Development Review Committee of the OECD, which is charged with the examination of the economic situation of member countries.

The economic situation and policies of Ireland were reviewed by the Committee on 11 July 2013. The draft report was then revised in the light of the discussions and given final approval as the agreed report of the whole Committee on 31 July 2013.

The Secretariat's draft report was prepared for the Committee by David Haugh and Alberto Gonzalez Pandiella under the supervision of Patrick Lenain. Research assistance was provided by Josette Rabesona.

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